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***Listed Holding Companies Valuation:
the Italian Case***

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Introduction

The purpose of this work is to analyse the discount to NAV phenomenon in the Italian market, using some selected listed holding companies as reference.

A holding company can be defined as “a professionally managed institution owing a portfolio of stocks in public and private companies with the purpose of influencing them. In realising this objective, a holding company acts both as a financial intermediary and as an active shareholder” (Banerjee et al., 1997). Since holding companies are characterized by operations through different subsidiaries and associates, they are typically valued using a Sum-of-the-Parts method, i.e. evaluating each segment as it were broken up and spun off or acquired by another company and then calculating the whole enterprise value by summing up the valuations of the individual parts. The Net Asset Value (NAV) reflects the sum of the estimated values of the assets in the portfolio of the holding company minus its net debt. In the market, a deviation of the holding companies’ market capitalization from their NAV has been observed, and such deviation is referred to as *discount to NAV* if the company’s stocks are traded at a price lower than its NAV.

In the first chapter, an overview about holding companies as a corporate governance tool is provided. In particular, focusing on the Italian market, holding companies have traditionally played an important role in corporate finance and constituted a distinctive feature of the Italian corporate system since the beginning of the 20th century. Typical characteristics of Italian holding companies are ownership concentration and the adoption of a pyramidal structure; at the head of such structure there is usually a controlling family able to amplify its control and influence area with a reduced amount of investments through the use of a control chain.

After this overview, the chapter continues with a review of the existing literature about the discount to NAV phenomenon. In doing this, studies and researches on closed-end funds discount have been taken into consideration, as research about the “holding companies’ discount” phenomenon has been sparse so far. These studies investigating the closed-end funds’ discount to NAV phenomenon are based on two different approaches: the *rational* approach and the *noise trader* approach. The *rational* approach is based on the idea that the discount to NAV is linked to several company’s specific factors, e.g. agency problem, lack of liquidity, diversification, leverage, operating costs and managerial performance. The *noise trader* approach suggests that discount to NAV and its variation over time are also caused by the presence of noise traders in the market and by the changes in investors sentiment.

In the second chapter, the study of the discount to NAV phenomenon is performed through the analysis of some listed Italian holding companies, i.e. Exor, Italmobiliare, CIR, IMMSI and Tamburi Investment Partners, during the 2009-2017 period. In particular, for each holding company, the following aspects have been investigated:

- the dynamics and the reasons behind the NAV evolution over the years, trying to understand the impact of the *business strategy*, i.e. the market performance of the underlying listed assets in the portfolio, and the *corporate strategy*, i.e. the management “activism” in managing the asset portfolio;
- how the market has changed its valuation about the holding companies during the reference period. The discount to NAV dynamic and its key factors have therefore been analysed by comparing the market capitalization to the NAV;
- the holding companies’ ability to generate value for their shareholders, in the light of the discount to NAV existence. For this purpose, the annualized Total Shareholder Return delivered during the reference period has been taken into consideration, trying to understand the impact of the performance of the underlying listed assets in the portfolio as well as the impact of the discount to NAV dynamic observed over the same years.

Chapter 1 – Holding companies' valuation and discount to NAV

1.1 Holding companies: an overview

A holding company can be defined as “a professionally managed institution owing a portfolio of stocks in public and private companies with the purpose of influencing them. In realising this objective, a holding company acts both as a financial intermediary and as an active shareholder” (Banerjee et al., 1997).

The study of holding companies as a corporate governance tool is part, in the economic literature, of the study of business groups. Business groups are, traditionally, the typical legal form adopted by large corporations all over the world to conduct their business thanks to the bonds with subsidiaries and associated companies and the single company operating without equity ties with other firms is only applied to small enterprises (Zattoni, 1999). The business groups, according to Colpan and Hikino (2010), can be classified in two basic and distinct types. The first one is the *network-type* business group, based on the *alliance* behavioural principle assumed by the constituent companies: in this case, the business group is composed by legally independent companies that act for reaching common long-term goals, excluding the existence of an individual's dominant control over budgetary and strategic decisions for the whole group. The second type is referred to as *hierarchy-type* business group, organized by the *authority* principle, in which there is a dominant shareholder at the top (which could be a family, an entrepreneur or an holding company), several companies at the bottom, where most of the operational activities are located, and a chain of holdings and sub-holdings in the middle, through which control is exercised, creating in this way a *pyramidal structure* (Bianchi and Bianco, 2006).

The reasons behind the choice of adopting the business group form are many and strongly dependent on the aims pursued by the actors participating in the group who determine the establishment method and the characteristics of the group itself. Among the most common reasons, reference can be made to the possibility to pursue strategies of diversification and internationalization, the opportunity to realize economies coming from the centralization of management and organization services as well as scope and scale economies¹ but also, typically in the groups vertically integrated, economies in the transaction costs and the chance to exploit

¹ Economy of scope is the cost advantage a company has with the increased variety of complementary goods produced; economy of scale is the cost advantage a company has with the increased volume of goods produced.

financial opportunities. In particular, with regard to the latter and vertical groups, the most significant financial opportunities are the possibility to amplify the control and influence area with a reduced amount of investments through the use of a control chain, as well as the possibility to increase debt capacity thanks to a superior level of resources to guarantee creditors. Moreover, because of the separate economic subjectivity of the holding company, it appears as a third party in the legal relationships established by the individual subsidiaries so that any creditor claim burdens the latter and not the holding company.

The adoption of a business group form is also linked to a greater complexity of structure. This is more evident in the hierarchy-type business groups, which involves several entities:

- *Parent company or holding*: economic entity having the power of controlling, at decisional and administrative level, all the other companies of the group;
- *Subsidiaries*: economic entities over which the holding company exercises a dominant influence as it owns, directly or indirectly, the whole or the majority of the shares;
- *Affiliates*: economic entities over which the holding company directly or indirectly exercises a significant influence.

Maintaining the focus on the holding company and discriminating for the type and nature of the activity realized, in the economic literature we typically find a distinction among:

- *Pure / Financial holding* where the holding company does not implement any operating activity but it is only responsible for managing investments and financial resources, as well as for guiding and coordinating group corporate policies;
- *Mixed / Industrial holding* where the holding company, in addition to the management of investments and financial resources and the coordination of group strategies, also carries out operational activities aimed at manufacturing and marketing goods.

Frequently, business groups are characterized by the listing of many companies at different levels of the chain and the holding company at the top of the pyramid may also be listed so it is interesting to try to understand which is the logic and which are the main pros and cons for an holding company to go public (Vecchio et al., 2012). Among the advantages, it is possible to mention a higher visibility of the company also at an international level, a greater transparency of the company's value - given by an easier access to information for the investors (e.g. IFRS accounts, financial analyst monitor, etc.), which is further enhanced if the underlying assets are also listed - a superior management retention, an easier access to the capital market and to the

funding from banks. With regard to the disadvantages, the most important are the listing costs, the duty of dealing with minorities and the limits imposed by the authorities to some M&A transactions.

1.2 Italian holding companies

The focus of this work is on the Italian market and holding companies have traditionally played an important role in corporate finance and constituted a distinctive feature of the Italian corporate system. In fact, since the beginning of the 20th century, Italian large companies tended to organize themselves as complex structures, characterized by coordination and network frameworks, which allowed the owners at the top of the organization to keep control over their companies with a limited amount of investment, thus configuring a hierarchical business group structure. Such a framework was used by companies as a tool to support their growth, characterised since the beginning by a strong tendency towards the sequential constitution of equity ties between different companies, rather than by an organic approach (Colli et al., 2016). In Italy, the diffusion of this type of organizational structure having the ownership concentration as main characteristic, was also favoured by the limited dimension and development of the stock market, which is connected to a low investor protection guaranteed by the law: in this environment companies are less able to sell equity to small shareholders, thus favouring ownership concentration. This correlation is demonstrated by the fact that in the 1990s, which were characterized by a more strict regulation of traded companies and the stock market, it is possible to observe a reduction in ownership concentration and pyramiding compared to the previous decades of the 20th century (Aganin and Volpin, 2003). Another relevant element to be considered is an over-time simplification of the structure of pyramidal groups realized with a reduction of the chain length (Bianchi and Bianco, 2006).

Furthermore, a distinctive feature of large Italian firms is that, in the majority of the cases, the main shareholder is a group of people belonging to the same family (Zattoni, 1999) so this structure can also be used to plan a generational pass since it allows to split power and responsibilities across the members of the family, limiting the conflicts among them (Colli et al., 2016). Through the adoption of a pyramidal structure at the head of which there is a holding company, the controlling family is able to achieve control of the maximum possible number of operating companies with the lowest amount of capital investment (the so called *stock pyramiding effect*). This means, for instance, that a family that owns 50% of a firm, which in turn owns 50% of another firm, achieves the control of the latter with a share of only 25%

(50% * 50%). In general terms, the amount of investment that the controlling shareholder has to make in order to control the assets is inversely proportional to the number of levels created: the higher is the number of subsidiaries, the lower will be the investment required (Zattoni, 1999).

With this mechanism, especially in listed companies, it is possible to achieve a separation between ownership and control that in the economic literature may have a double interpretation (Di Carlo, 2013). If we consider an *opportunistic* view, which is based on the agency theory², the controlling shareholder at the top of the chain may be incentivised to reroute the resources in order to extract private benefits at the expenses of the minorities. This phenomenon is typically known as *tunneling* (La Porta et al., 2000). This process is facilitated also by the fact that the controlling shareholder often controls the composition of the board of directors: a very common situation is the presence of members of the controlling family in the subsidiaries' boards, thus questioning the real board independence and separation between control and direction. If we consider instead an *efficient* view, this structure allows to create value for all the subsidiaries thanks to a network organization that reduces the transaction costs and gives the possibility to achieve scope and scale economies because of the centralization of certain corporate functions.

Large Italian groups are also characterized by the listing of many companies under their control. As defined by Bianchi and Bianco (2006), "a listed group includes all the companies (listed and not listed) which are linked by a control relationship to the listed company, i.e. those that control or are controlled by the listed company itself" (*see fig. 1*). The presence of more than one listed company in a group may suggest a possibly high separation between ownership and control since there is a greater involvement of minority shareholders in the ownership and this is even more enhanced if the listed companies are at different levels of the chain of control (Bianchi and Bianco, 2006). These listings has several financial benefits for the controlling family: they allow the collection of capital thanks to the sale in the market of shares that are not necessary for exercising control, they may be used to raise funds in the future by implementing capital increases which can also be realized in a subsidiary with a good performance in order to solve financial crises in another group's firm (Zattoni, 1999).

² An agency relationship is "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal" (Jensen and Meckling, 1976). Type I agency problem arises between the owner of the company and the manager; Type II agency problem is between the controlling shareholder and the minorities.

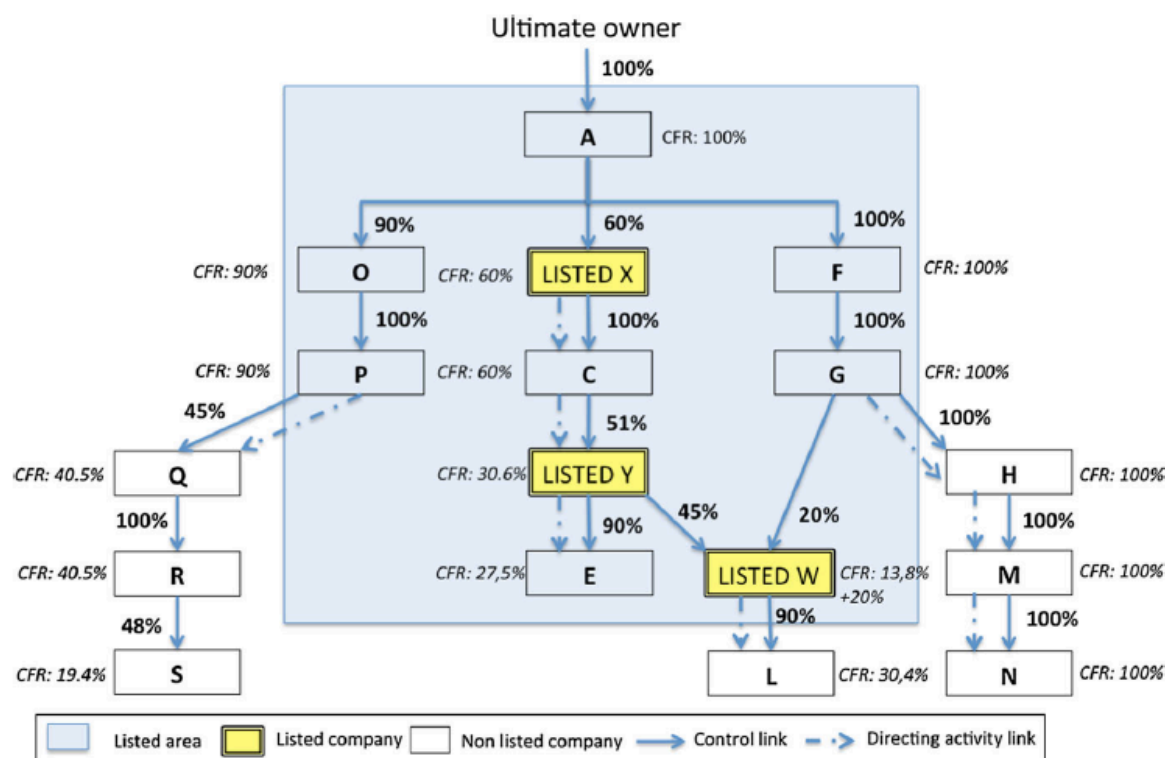


Fig. 1 – The identification of the business group. For each company, the fraction of the cash flow rights (CFR) of the ultimate owner is indicated and it is calculated by multiplying the ownership stakes held by each company along the control chain. *Source:* E. Di Carlo (2013)

1.2.1 Legal aspects

The regulation of holding companies in Italy is part of the regulation of business groups described above as a typical structure of the Italian entrepreneurial system. Traditionally, the problem of business groups is considered a problem of protection of minority shareholders and creditors of the subsidiaries but it is also, in broader terms, a problem of reconstruction of a “right of organization” for the companies belonging to a business group.

The regulatory framework has profoundly changed with the corporate law reform in 2003, which introduced for the first time in the Italian legal system a discipline of business groups (cf. articles 2497 et seq. of the Italian Civil Code). The first subject of the discipline is the activity of direction and coordination exercised by the holding company. The meaning of “activity of direction and coordination” has not been explicitly stated by the legislator but it may be interpreted as the actual exercise of power of a company in directing and coordinating other companies based on a unified project through the organization, and not necessarily centralization, of one or more essential functions. According to art. 2497-*sexies*, the activity of

direction and coordination is exercised by the company or body required to consolidate the financial statements³ or by the controlling company under art. 2359⁴, which defines the principles to distinguish subsidiaries from affiliates.

According to art. 2497, paragraph 1, the holding has to act in compliance with the principles of “fair corporate and business management”. A violation of these principles exposes the parent company to a liability for damages directly towards the shareholders and creditors of the subsidiary.

Moreover, art. 2497-*bis* requires the subsidiaries to disclose their membership in a business group in order to indicate to shareholders and third parties whether the company operates in an “autonomous” entrepreneurial context or in a “group” structure and this distinction is relevant in terms of different risk conditions of the economic activity. The article aims to also guarantee the transparency of the activity of direction and coordination, stating that the directors have to indicate, in the management report, their relationships with the company who exercises the activity of direction and coordination as well as with the other companies subjected to it, pointing out the effect that this activity has had on operations and results. There is also a specific obligation to motivate the decisions influenced by the activity of direction of coordination, i.e. by the membership in a business group (art. 2497-*ter*).

With regards to the business groups’ fiscal aspects, there are two particular regulatory provisions: the participation exemption and the *consolidato fiscale*. *Participation exemption* (Pex) is disciplined by art. 87 of Presidential Decree No. 917/86 which provides for a 95% fiscal exemption of the capital gains realized with the sale of investments, in case certain requirements are met: 1) the participation must be held continuously for at least twelve months; 2) the participation must be classified as a financial fixed asset in the first closed balance sheet during the period of possession; 3) the investee company must be resident in a country other than those with a privileged tax regime; 4) the investee company must carry out a commercial activity under art. 55 of Presidential Decree No. 917/86.

The *consolidato fiscale* is disciplined by art. 117-129 of Presidential Decree No. 917/86 which establishes, in case of compliance with certain requirements, the taxation of the total income of

³ Consolidated financial statements are regulated by the national legislation with the principle OIC 17 and by the international accounting standards with the IFRS 10.

⁴ The art. 2359 defines *subsidiaries* the ones in which the parent company 1) holds the majority of the votes in the ordinary assembly; 2) holds sufficient votes to exercise a dominant influence in the ordinary assembly; 3) exercises a dominant influence by virtue of contractual agreements on the management of the investee companies. The *affiliates* are those on which the parent company exercises a significant influence, i.e. at least one-fifth of the votes in the ordinary assembly or one-tenth if the company has shares listed on regulated markets.

a group as deriving from the sum of the taxable income of the individual investee companies. Several are the advantages connected to the adoption of this scheme: 1) the dividends distributed among the participating companies are not considered in the formation of the total group's income; 2) the opportunity to offset tax credits and benefits between the different companies included in the "scope of consolidation"; 3) the possibility to offset gains and losses realized by the different companies in the same financial year in order to determinate the total taxable income, potentially realizing a tax shield.

With regard to dividend taxation, art. 89 of Presidential Decree No. 917/86 establishes that dividends are taxable for 5% of their amount.

1.3 Holding companies' valuation: the Sum-of-the-Parts approach

The Sum-of-the-Parts approach, also called Break-Up analysis, is a valuation method typically used by analysts to value conglomerates, multi-divisional companies and holding companies. Since these forms of organization are characterized by operations through different divisions and subsidiaries, this method consists in evaluating each segment as it were broken up and spun off or acquired by another company. The whole enterprise value is then calculated by summing up the valuations of the individual parts. Alternative and most common valuation methods would be the Discounted Cash Flow (DCF analysis) and the trading multiples approach but the Sum-of-the-Parts method seems to be the best valuation alternative in these cases because:

- Given the "hybrid" nature of the holdings, with investee companies usually operating and competing in market segments characterized by different economic characteristics, the application of a unique cost of capital in the DCF approach or the use of a single-sector multiple would not offer deep insights into the sources and the drivers through which the company is generating value, while a SoP approach would allow a more accurate picture;
- By valuing the assets separately, it is possible to guarantee a greater flexibility in the process, which allows to maintain the holding companies' structure up to date taking into account the changes in their portfolios, and transparency from the analyst, who has to present and justify the value calculated for each single part and the subsequent expression of a target price and outlook.

The valuation of each single part can be performed using different methods, as for example a mark-to-market approach, typically utilised for the listed companies, a DCF approach applying

different costs of capital, which reflect different systematic risks of the operating cash flows and their ability to support the debt, or a multiples approach, selecting an appropriate peer group which is closely comparable in terms of sector but also in terms of return on capital and growth path. Whenever possible, it is also appropriate to triangulate the results coming from the DCF method with the ones obtained with multiples of peers in order to test the valuation.

1.4 Holding companies' discount to NAV

Net Asset Value (NAV) reflects the sum of the estimated values of the assets in the portfolio of the holding company minus its net debt. As a result, holding companies' share prices should reflect this value. However the existence of a deviation of the holding companies' market capitalization from their NAV has been observed, and such deviation is referred to as discount / premium to NAV.

This deviation is measured on a percentage basis and expressed as:

$$Discount / Premium = \frac{Mkt\ cap - NAV}{NAV} \times 100$$

In particular, if the company's stocks are traded at a price lower than its NAV, a discount is observed; if the company's stocks are traded at a price higher than its NAV, a premium is registered (*see fig. 2*).

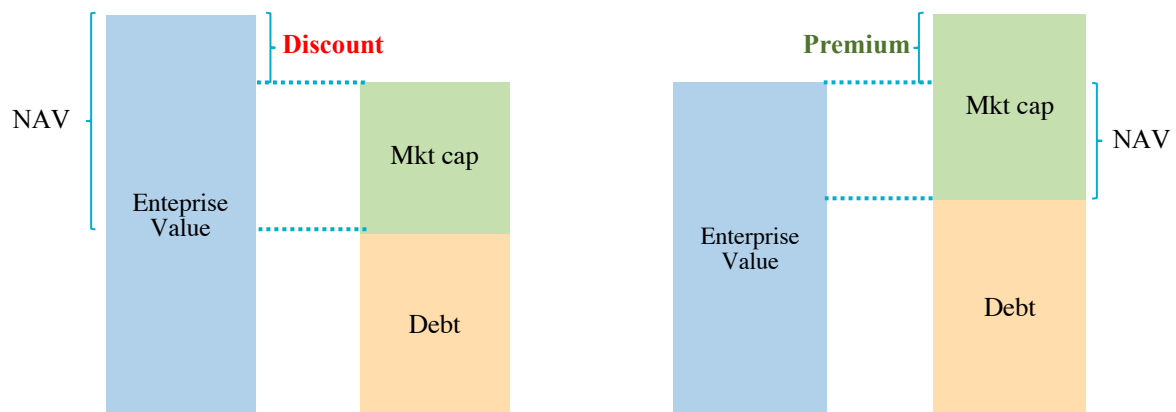


Fig. 2 – Graphical representation of the concepts of discount and premium to NAV

In the market it is possible to observe that holding companies trade very often at discount, rather than at premium. So far, research about the “holding companies’ discount” phenomenon has been sparse, while there are several studies and researches about a similar issue observed for the closed-end funds. For this reason, in order to try to find explanations for the drivers of the discount to NAV in holding companies, it is possible to compare the latter to closed-end funds.

Closed-end funds are publicly listed investment companies which invest funds in a portfolio of stocks and other securities of companies in order to realize profits. Unlike open-end funds, closed-end funds have a fixed, i.e. “closed”, capitalization, meaning that they only issue a set amount of shares, which are not redeemable. Furthermore, closed-end funds’ shares are offered through an IPO and thereafter traded on the open market, just like an individual stock, so the price is affected by the investors’ supply and demand for the shares. This characteristic determines the possibility to sell either at a premium or at a discount to NAV, which does not happen in open-end funds, whose shares are directly bought from, and sold to, the fund and the price is fixed at their NAV.

In the comparison between holding companies and closed-end funds, it is important to point out a relevant difference existing among the two: the former has the objective to actively control and manage the companies in which it has a stake, whereas the latter is intended to only make profits from buying and selling shares.

The studies investigating the closed-end funds’ discount to NAV phenomenon are based on two different approaches: the *rational* approach and the *noise trader* approach. The *rational* approach is based on the idea that the discount to NAV is linked to several company’s specific factors. The *noise trader* approach suggests that discount to NAV and its variation over time are also caused by the presence of noise traders in the market and by the changes in investors sentiment.

1.4.1 Rational approach

The rational approach assumes that the discount to NAV is related to multiple specific factors characterizing the holding companies. In this section, in the light of past studies and the relevant literature, we will try to understand the main factors.

Agency problem

Holding companies, as already explained, are frequently organized in a pyramidal structure and therefore are characterized by a strong separation between ownership and control, which is connected to the legal minority's protection issue. In this context a possible principal-agent problem appears between the controlling shareholder and the minorities: the controlling shareholder at the top of the pyramid may be incentivised to transfer the resources and assets of the companies along the chain in order to extract private benefits, to the detriment of minorities. This phenomenon is typically known as *tunneling* (La Porta et al., 2000). It is connected to pecuniary benefits but it can also be the case that controlling shareholders take advantage of their position in order to extract non pecuniary benefits, such as the promotion of the family pride and reputation (Barclay et al., 1993).

Because of this mismatch in the interests of controlling and non-controlling shareholders and because of the power and the incentive that controlling shareholders could have to divert the resources for personal interests, the non-controlling shareholders will require a price discount when they buy the stocks in a holding company, in order to be compensated for the expected loss from expropriation. The discount to NAV can be thus partially explained by this anticipation of minorities of being expropriated by the controlling shareholders (Jensen and Meckling, 1976; Barontini and Siciliano, 2003). Barclay et al. (1993) also support with their study this idea of a strong and systematic positive correlation between block-ownership and discount to NAV.

Lack of liquidity

The fact that holding companies are characterized by ownership concentration determinates a limited amount of floating capital in the market. This is consequently connected to a low trading volume of these floating shares, which therefore will configure a less liquid market. Liquidity describes the extent to which an asset or a security can be easily bought and sold in the market with limited or no effect on the price. In the event of a low level of liquidity, there is a relatively limited number of potential buyers and the search costs, associated with finding these buyers, are high. Moreover, low liquidity is connected to a higher risk of assets mispricing, meaning a situation in which the market price of stocks does not fairly reflect their value. The combination of these two elements characterizing illiquid markets, makes it possible to consider the lack of liquidity as positively correlated to the presence of the discount to NAV (Malkiel, 1977; Adams and Venmore-Rowland, 1990).

It is also important to take into account that the concept of lack of liquidity is not only related to ownership concentration but it also depends on the composition of the holding companies' portfolio. Should the portfolio be also composed by unlisted companies, that by their nature are illiquid assets, the shareholders investing in the holding's shares, would have the possibility to indirectly have access to these private businesses. However, at the same time, the market might assign a discount to the holding company's shares because of the difficulty possibly experienced by the holding in finding a buyer, in case of these assets being liquidated (Damodaran, 2005).

Diversification

Diversification allows to reduce the risk exposure of a portfolio of assets, as theorized by Markovitz's Portfolio Theory. The application of this concept to holding companies would mean that a diversification of the portfolio of investments would reduce risk as the dependence on a single sector of activity or a single country is lowered. Moreover, the investment in a holding company allows a shareholder to get access to a diversified equity portfolio at potentially lower transaction costs compared to the case in which the investor has to create it on his own.

Diversification in a holding company also allows to create an internal capital market in which the holding allocates the capital to the different investee companies and, as pointed out by Gertner et al. (1994), the main consequences and advantages compared to the external capital markets (e.g. the bond market, the stock market, banks and financial companies) are increased monitoring incentives on the utilization of the funds and a better assets redeployability, meaning the possibility to easily shift funds or assets from one project/unit to another. The creation of an internal capital market, thanks to a diversified structure, appears to be particularly efficient in periods during which capital markets are more volatile because the exceeding cash flows from a division can be used to finance other divisions of the same company, thus reducing dependence on the external market (Dell'Acqua et al., 2013).

Additionally, a diversified portfolio allows to minimize tax burdens by offsetting the gains of a subsidiary with the loss realized in another subsidiary, so as to create an immediate tax advantage rather than carrying it forward for future years (Berger and Ofek, 1995).

Based on the considerations above, it would seem that holding companies should trade at a premium (Adams and Venmore-Rowland, 1990) but in reality several studies have pointed out that, in most cases, diversification can be considered a cause of discount to NAV. This discount

deriving from the diversification process is usually called *conglomerate discount* because it is typically applied by the market to conglomerates and multi-divisional firms, which are characterized by their operation in different sectors.

First of all, reference can be made to the fact that the market considers the potential agency costs, the implementation risk, the additional complexity and consequently the lower transparency connected to the diversification process. An excessive diversification would indeed make it more difficult to find quality investments and, above all, to deeply understand and effectively manage and monitor them. On the contrary, holding companies with a more focused portfolio would realize gains from specialization. This could be considered a reason why in recent years conglomerates have conducted extensive restructuring operations in order to refocus on the core business. The typical benefits connected to a restructuring process through a spin-off operation are the realization of a more efficient investment policy, a superior transparency in the company disclosure, the possibility to attract new investors which prefer to focus their investments on a specific sector and the redefinition of a financial policy and a shareholder distribution policy, which are more appropriate for the different businesses and the different growth targets (Dell'Acqua et al., 2013).

Furthermore, in literature there is evidence that diversified companies destroy value because internal capital markets are inefficient. This is related to the idea of the cross-subsidization of failing segments (Cronqvist et al, 2001; Berger and Ofek, 1995), in other words, the situation in which the holding company shifts the funds from one performing subsidiary to a more inefficient one, usually motivated by private benefits that can be extracted through this operation by the controlling shareholders. Berger and Ofek (1995) in their study also observe that cross-subsidization determines a smaller loss in value in case of a related diversification compared to a situation of an unrelated one⁵.

This concept of related diversification is also considered in the study of Dell'Acqua et al. (2013) about the variation of discount considering the degree of correlation between the business segments. They conclude that the discount is higher when there is an unrelated diversification as extracting the benefits from diversification would be more difficult. In their study the influence of the company divisions' growth profile is also considered: when it is substantially different, divisions frequently compete to obtain the limited resources and the "high growth

⁵ Related diversification is the case when conglomerates operate through correlated business segments; unrelated diversification is the case when conglomerates operate through business segments in different and not correlated markets. The distinction is done on the basis of the SIC code: unrelated diversification is when segments have different SIC codes at the two-digit level (Berger and Ofek, 1995).

divisions” could be at a disadvantage compared to the bigger divisions which operate in mature markets even if the latter present less profitable investment opportunities.

Cronqvist et al. (2001), with their analysis of Swedish real estate corporations, have also introduced the idea of the existence of an *ex ante* diversification discount, i.e. the discount applied to firms that are expected to adopt a non-focused strategy, and it appeared to be even bigger and more important than the one applied to an already diversified firm. The existence of the *ex ante* discount is motivated by the fact that investors anticipate the costs connected to the diversification process and apply a discount due to the uncertainty of making synergistic gains from diversification.

Leverage

Financial leverage topic is connected to diversification since diversification increases the corporate debt capacity because it creates an “insurance effect”, coming from the possibility for the holding company to use the excess cash from one of the subsidiaries in case of need (Melnik and Pollatschek, 1973). As a result, we observe a reduction in the cost of borrowing.

The main advantage of borrowing is related to the interest tax shield effect, being the interests on debt tax deductible. However, it is important to bear in mind that financial leverage allows an increase in the value of the firm only up to a certain level, corresponding to the optimal debt to equity ratio, beyond which the value of the company, and the connected shareholders’ wealth, starts to drop due to the increase of the present value of financial distress costs; as a result we have an increased risk and consequently a higher cost of debt. For these reasons, as long as the rate of return from the holding’s portfolio is greater than the cost of debt, additional leverage can be advantageous (Adams and Venmore-Rowland, 1990).

The effect of leverage on discount to NAV is therefore controversial and uncertain, as it depends on the borrowing level as well as on balance between advantages and disadvantages of gearing.

A different perspective is assumed by Adams and Venmore-Rowland (1990). In their study, they use the Modigliani and Miller proposition on capital structure, which states that the total value of a company does not depend on its capital structure, to affirm that financial leverage is not a determinant of NAV discount / premium, but it can rather be considered an amplifier of NAV discount / premium created by other factors.

Operating costs

Using the holding company as a corporate governance tool is connected to several benefits related to the potential creation of value for the shareholders but, at the same time, it will also generate costs. In view of the trade-off, if the expenses exceed the benefits, this would determine the existence of a discount to NAV (Kumar and Noronha, 1992).

We are going to focus now on the potential advantages: firstly, holding companies can improve managerial efficiency in the subsidiaries and affiliates by supplying professional advices and coordinating the whole group based on a uniform vision. Secondly, holding companies can also allow to improve operating efficiency by offering the opportunity to reach scope and scale economies, thus lowering the costs for the whole group. Thirdly, the holding company can take advantage of some legal regulations on taxes, e.g. the tax shield obtained thanks to a loss making subsidiary.

With regard to the drawbacks, there are several operating costs involved in running a holding company, usually connected to the complexity of this organizational structure. This determines the necessity to implement monitoring activities that can be very expensive and the holding company may not always be able to engage appropriately in these activities for each controlled company. Other expenses may be related to management fees.

Managerial performance

The expected managerial performance can be considered as related to discount / premium to NAV. Usually, past investment performance is considered as a good proxy, although no guarantee, of future performance: holding companies presenting a past internal rate of return which is lower than their cost of capital, will be subject to a higher discount to NAV because it is considered a signal of potential non-value creation also for the future (Malkiel, 1977; Vecchio et al., 2012).

1.4.2 Noise trader approach

The explanations for the discount to NAV connected to firm-specific factors given by the rational approach have been considered, in literature, as not much explanatory, especially in relation to the reasons why discount varies so much over time. Considering this lack of explanatory power of the model, the noise trader approach has been introduced: it links the

discount to NAV to the investor sentiment, in addition to the company's specific factors examined in the previous section. This model is associated with the works on the close-end funds of De Long et al. (1990) and of Lee et al. (1991).

The noise trader approach is based on the idea that the investors present on the market fall into one of two distinct categories. On the one hand there are the rational traders, i.e. professional investors who trade on the basis of the information about fundamentals; on the other hand, there are the noise traders, which are non-professional or irrational investors who have no competences and access to information allowing them to undertake a fundamental analysis and hence they trade on market sentiment, that is on the basis of the information available and considering their own sentiment, instinct and incorrect believes.

De Long et al. (1990) model is based on two crucial assumptions: firstly, they assume that rational investors are risk averse and have a short investment horizon; secondly, the noise trader sentiment is stochastic so it cannot be perfectly predicted by rational investors. As a result, rational investors are not able to forecast whether noise traders will be optimistic or pessimistic at the time when they will decide to liquidate their investment: in case noise traders will have a bearish sentiment, prices will be undervalued and rational investors might not be able to sell an asset as prices are too low and the discount has widened. This means that the noise traders' influence cannot be arbitrated away by a rational investor buying the fund selling at discount and selling short its portfolio. This is due to the fact that in case the investor wants to liquidate his position and the discount has increased since the time when the arbitrage strategy has been put in place, the arbitrageur would suffer a loss. It is this unpredictability of sentiment's change, and not the presence of pessimistic investors per se, that determines an additional risk to the one inherent to the company's portfolio and therefore the existence of average discounts.

The variations in discounts to NAV are then explained by the fluctuations in investor sentiment, which thus determines fluctuations in the demand for the closed-end fund shares. In this model, the investor sentiment risk is assumed to be systematic, meaning it affects several securities at the same time, included, but not limited to, the closed-end funds; the investor sentiment reflects then market-wide expectations and not closed-end fund specific ones.

Lee et al. (1991) further investigate this topic and add elements to the previously presented model, shifting the connection of the closed-end fund discount to an individual investor sentiment. In particular, they assume that noise traders predominately hold and trade closed-end fund's stocks, as it offers a security substitution, while institutional investors (i.e. the rational ones) are more likely to invest in the fund's underlying assets. As a result, holding the closed-end fund's shares is riskier than holding the underlying assets directly because the

former are subject to the additional noise trader risk. The presence of such risk implies that closed-end funds shares should have a higher required return than the underlying assets and therefore they will be priced at discount to their NAV. Lee et al. use the discount in closed-end funds as “a proxy for changes in individual investor sentiment” and conclude “that the same sentiment affects returns on smaller capitalization and other stocks held and traded by individual investors”, meaning that also smaller stocks should be undervalued in the market. The same logic can be true for holding companies (Rommens et al., 2004).

In studying the fluctuations of the discount to NAV, there is also evidence of a mean-reverting tendency, i.e. a situation in which the disequilibrium between share price and NAV fluctuates around its mean value (De Long et al., 1990; Lee et al., 1991; Gasbarro et al., 2003). Gasbarro et al. (2003) in their study find out that mean-reversion is fund specific and that excess returns may be generated only if mean-reversion is primarily driven by changes in share price rather than in NAV.

Chapter 2 – Italian holdings: case studies

2.1 Methodology

The focus of this work is on the discount to NAV in the Italian market. The analysis is conducted for pure / financial holdings, which are, differently from the mixed / industrial holdings, the most comparable to the closed-end funds, since their activity consists in managing investments and financial resources as well as coordinating group corporate policies, without carrying out any operational activity. The listed Italian holding companies taken into consideration in this work are Exor, Italmobiliare, CIR, Immsi and Tamburi Investment Partners.

In the previous section, we have reviewed the existing literature about some possible explanations to closed-end funds' discount to NAV, highlighting the fact that the same reasons may be applied to holding companies. The purpose of the case studies analysis being performed in this work is to investigate the dynamics and the underlying reasons of the holding companies' NAV evolution, trying to understand the impact of:

- *business strategy*, i.e. the market performance of the underlying listed assets;
- *corporate strategy*, i.e. the management “activism” in managing the asset portfolio;
- *financial strategy*, i.e. the company's choices on the capital structure to be adopted, which impact the value creation process and the company risk profile.

The analysis also aims to understand the related dynamics of the discount to NAV, to examine the Total Shareholder Return (TSR), i. e. the total return of a stock to an investor, and lastly to analyse the performance of holding companies compared to the market.

The analysis has been conducted on a yearly basis for the period 2009-2017, in a post-crisis scenario.

Different sources have been used in order to collect the data required for the analysis:

- For market capitalization and prices data, Bloomberg database has been used;
- For NAV estimation:
 - Whenever available, NAV has been taken from the companies' annual reports;
 - When not available in the annual reports, NAV has been taken from analysts' researches. In this case, it is important to take into consideration the fact that different analysts may use different valuation approaches and make diverse assumptions in

order to formulate a NAV estimation, which is therefore exposed to a certain level of subjectivity, especially related to the valuation of non-quoted stakes;

- In case it was not possible to adopt one of the first two options illustrated, NAV estimation is the result of personal calculations, through the application of the Sum-of-the-Parts approach. In particular, stakes in quoted companies have been valued at their market prices every 31st of December, while stakes in unlisted companies have been considered at book value or at fair value if indicated in the holding's annual reports. We obtain the NAV estimation by summing up the valuation of the listed and non-listed parts (*Gross Asset Value*) and then subtracting the net financial position of the holding company;
- The discount to NAV has been calculated through the application of the following formula:

$$Discount / Premium = \frac{Mkt\ cap - NAV}{NAV} \times 100$$

- For Total Shareholder Return data, Bloomberg function *TRA* (*Total Return Analysis*) has been used, obtaining the annualized return for the holding period, assuming dividends are reinvested at spot price.

In making the comparison between the holding companies' performance and the market, FTSE Italia All-Shares index has been taken as a reference as it includes all the elements constituting the indices FTSE MIB, FTSE Italia Mid Cap and FTSE Italia Small Cap. This choice is motivated by the fact that the holding companies presented in this work, because of their different characteristics in terms of market capitalization, free float and liquidity, are part of different indices. In particular: Exor is part of the FTSE MIB, the main benchmark index of the Italian stock market, which includes about the 80% of the internal market capitalization, Italmobiliare, CIR and Tamburi Investment Partners are part of the FTSE Italia Mid Cap, Immsi is part of the FTSE Italia Small Cap.

2.2 EXOR

Exor is one of the Europe's leading diversified holding companies. It was created in March 2009 with the merger by incorporation in IFI of the subsidiary IFIL S.p.A., an operation aimed at shortening and simplifying the control chain of Fiat S.p.A. In December 2016, Exor S.p.A. merged with and into Exor Holding N.V., a Dutch wholly owned subsidiary of Exor S.p.A., which has been then renamed into Exor N.V.

Exor N.V. is incorporated under the laws of the Netherlands and its ordinary shares are listed on MTA (Mercato Telematico Azionario managed and organized by Borsa Italiana S.p.A.). Exor N.V. is part of the FTSE MIB index.

Exor is controlled by the Agnelli family through the company Giovanni Agnelli B.V., which holds 52.99% of its share capital (*see fig. 3*). Being a historical family company, with origins at the beginning of the XX century, several members of the Agnelli family directly participate in the management of the company and have a seat in the Board of Directors, as CEO and Chairman (John Philip Elkann) and as Non-Executive Directors (eight of the fourteen Non-Executive Directors are instead qualified as independent under Dutch Corporate Governance Code).

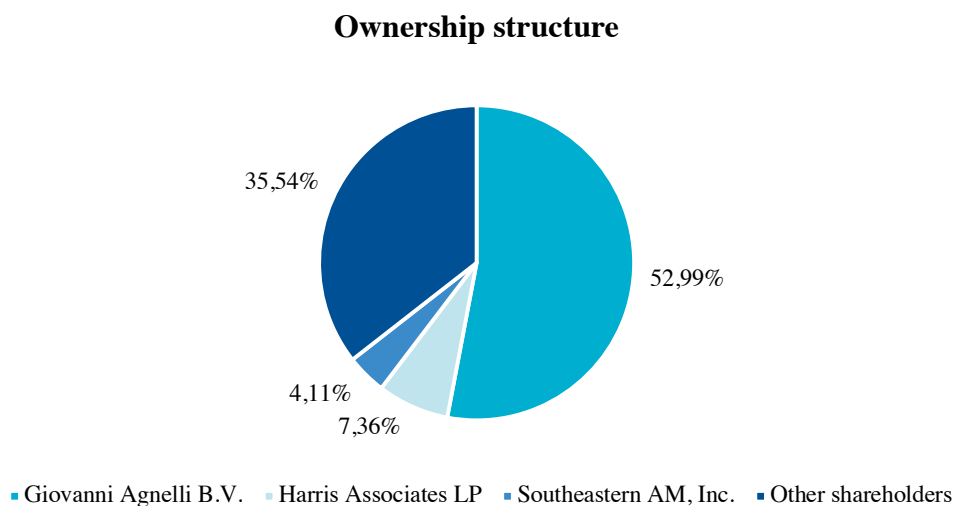


Fig. 3 – Ownership structure. *Source:* Company's annual report (2017)

Current asset portfolio

Exor is a holding company with investments in both publicly listed and unlisted companies. It does not have a specific business of reference, as the portfolio is characterized by diversification in terms of sector and geography, mainly in Europe and the United States. Exor is characterized by a strong separation between ownership and control, with voting rights in subsidiaries in excess of cash flow rights. As stated in the 2017 Annual Report, the investment portfolio is monitored and analysed constantly through the use of corporate governance rights (e.g. board representation) and through a constant dialogue with the management of the subsidiaries and affiliates, without exercising direction and coordination activities, thus without affecting their operating independence.

Exor is an active shareholder, which combines an entrepreneurial approach with a prudent financial approach, and it operates applying an investment philosophy focused on long-term value creation.

As of 31st December 2017, the main investments in Exor's portfolio are the following:

- *Fiat Chrysler Automobiles (FCA)* (29.18% stake and 42.34% of voting rights) is engaged in industrial activities in the automotive sector. Through companies located in forty countries, it engineers, manufactures, distributes and sells passenger cars, light commercial vehicles, components and production systems worldwide. It is listed on the NYSE and on the MTA managed by Borsa Italiana and it is included in the FTSE MIB Index;
- *CNH Industrial* (26.89% stake and 41.68% of voting rights) is engaged in industrial activities in agricultural equipment, construction equipment and commercial vehicles sectors. Thanks to the high variety of the products offered and its worldwide presence, it is a global leader in the capital goods segment. It is listed on the NYSE and on the MTA managed by Borsa Italiana and it is included in the FTSE MIB Index;
- *PartnerRe* (100% stake and 99.75% of voting rights) is a global leader in the reinsurance sector with headquarters in Bermuda. It provides Non-life (Property & Casualty and Specialty) and Life and Health reinsurance on a worldwide basis through its subsidiaries and branches;

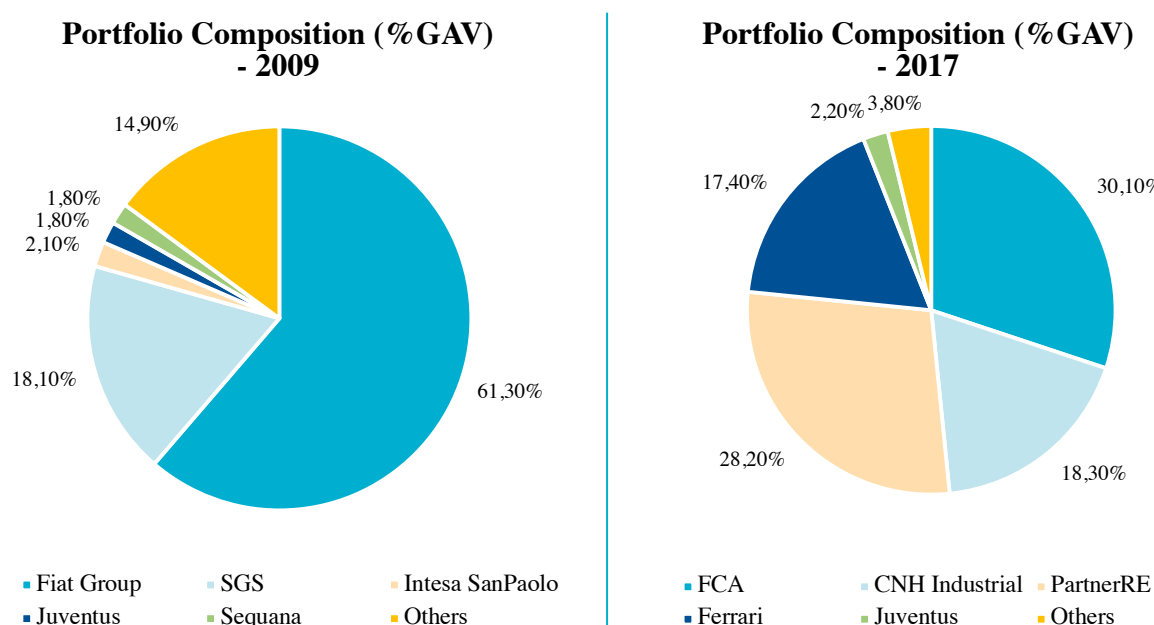
- *Ferrari* (22.91% stake and 32.75% of voting rights) is a global luxury sport cars brand, symbol of the “Made in Italy” excellence and exclusivity. It is listed on the NYSE and on the MTA managed by Borsa Italiana and it is included in the FTSE MIB Index;
- *Juventus Football Club* (63.77% stake, coincident with % of voting rights) is one of the most important and famous professional football teams in the world. It is listed on the MTA managed by Borsa Italiana;
- *The Economist Group* (43.40% stake and 20% of voting rights) is the editorial group that publishes *The Economist* weekly magazine, the leading source of analysis on international business, which sells more than one million copies worldwide.

2.2.1 Performance analysis

NAV evolution

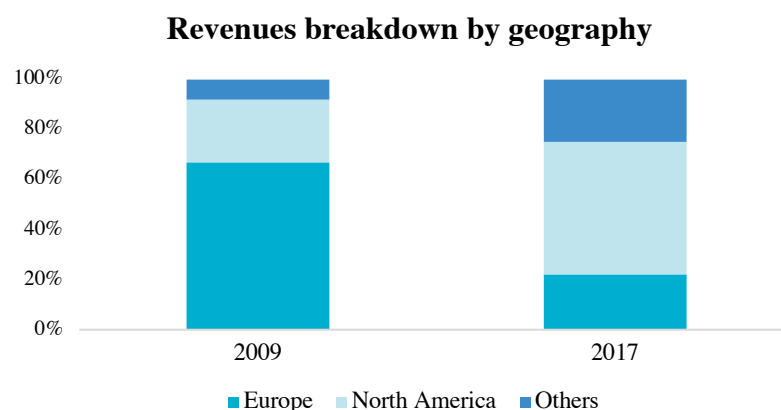
Since its inception in 2009 until 2016, under John Elkann management and leadership, Exor underwent a massive transformation, mainly aimed at globalizing and streamlining the portfolio and simplifying the holding structure and control chain.

The “activism” in managing the asset portfolio has determined a decisive reshuffle over the years and this is immediately evident looking at the Gross Asset Value (GAV) evolution in the composition:



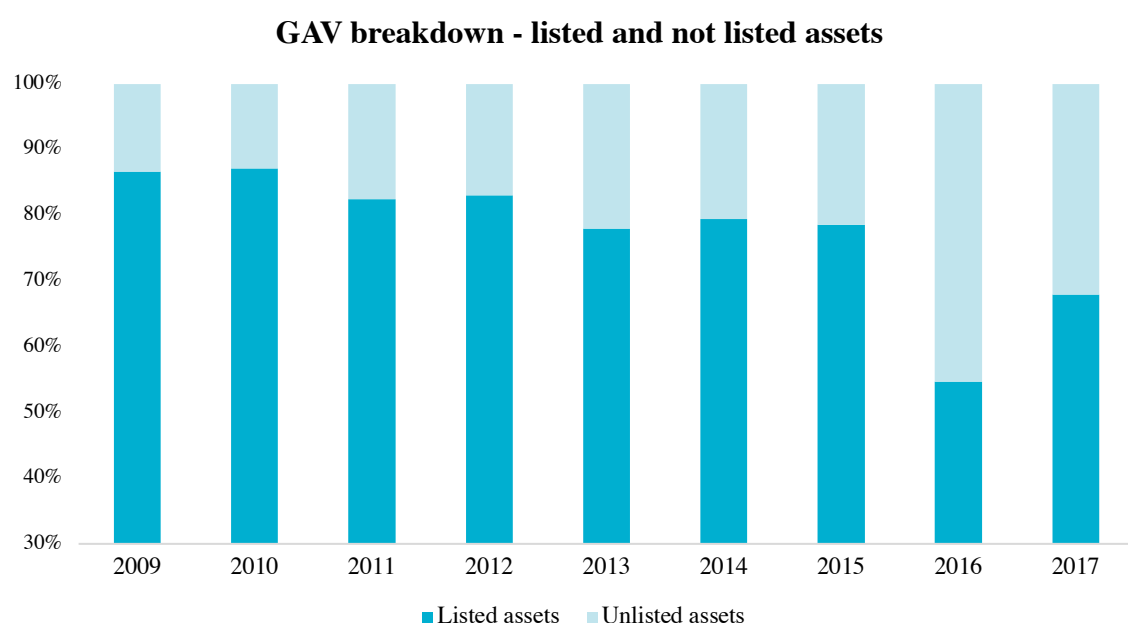
Source: Company's Annual Report (2009 and 2017)

Making a comparison between the portfolio compositions at the beginning and at the end of the transformation period, first of all the diversification in GAV is immediately evident: while in 2009 the portfolio was heavy concentrated on Fiat (61.30% of GAV), in 2017 it appears more balanced thanks to the entrance in the reinsurance business with PartnerRe (28.20% of GAV in 2017 and 37.90% in 2016 immediately after the completion of the acquisition), thus reducing the dependence and the exposition to the automotive and industrial businesses. This portfolio reshuffle has also improved Exor's geographic diversification, being revenues more international with North America representing about 50% in 2017, compared to 25% in 2009, when there was a strong dependence on the European market.



Source: Personal re-elaboration of Company's Annual Reports data

Another important characteristic to consider is the GAV composition in terms of proportion between listed and unlisted assets.



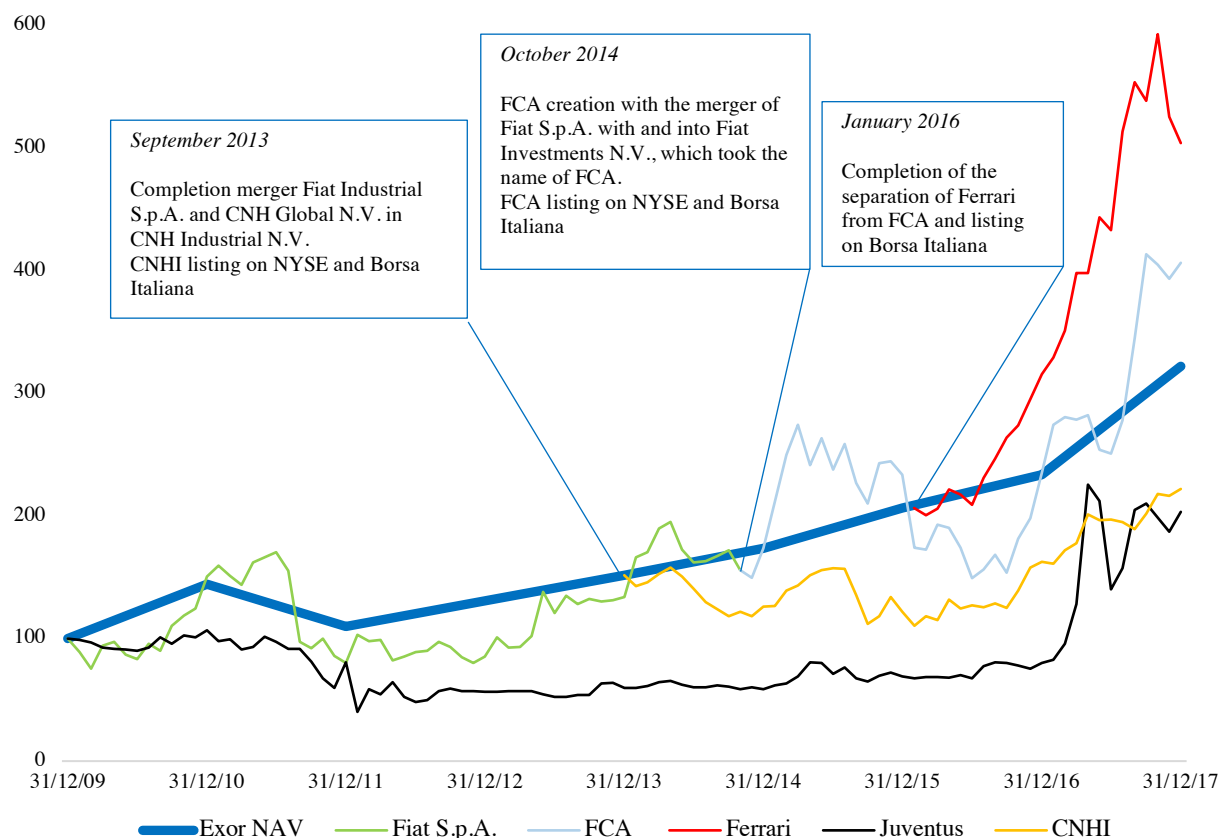
Source: Personal re-elaboration of Company's Annual Reports data

Exor's portfolio has always been composed of a significant share of listed assets, representing in 2009 about 85% of GAV. This high level of liquidity in the portfolio and the benefits possibly deriving from this on the market can be, however, considered partially tempered by the adoption of an investment policy aimed at retaining controlling stakes in the subsidiaries. In 2016, the acquisition of PartnerRe has weakened the portfolio liquidity and the market value of listed assets, which significantly diminished to about 55% of the investment portfolio. In 2017, the portion of listed assets increased again, representing about 70% of GAV, mainly triggered by the increase in Ferrari and FCA weights on GAV due to their strong market performance in that period.

During the period 2009-2017, Exor's NAV registered an almost fourfold increase with about a +16% CAGR. This successful path is due to a combination of the market performance of the underlying listed assets and the corporate actions undertaken to actively manage the asset portfolio.

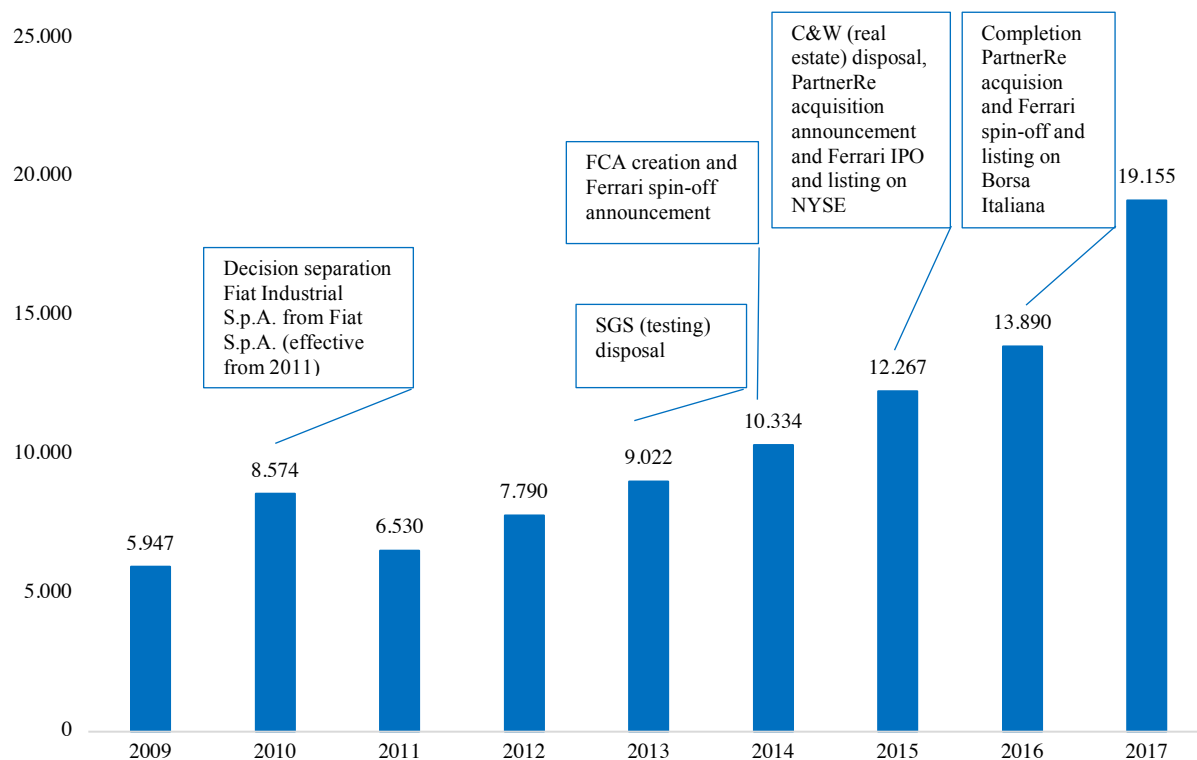
In analysing this dynamic, the presence of a potential impact deriving from the subjectivity and the different approaches used in the valuation of non-listed assets needs to be considered. In particular, as explained in Exor's annual reports, the unlisted equity investments are valued at fair value, determined annually by independent experts.

EXOR NAV and Market Performance of main underlying listed assets



Source: Bloomberg, annual reports and personal re-elaboration. NAV taken from Company's annual reports

EXOR NAV (EURm, year-end) and main corporate actions



Source: Company's annual reports

We start now analysing NAV evolution, and the first significant event to be mentioned in Exor's history is the first step of the transformation of FIAT Group in 2010, with the decision to separate Fiat Industrial S.p.A. from Fiat S.p.A. The aim of this operation was to guarantee a greater focus in the efforts on distinct sectors: automobiles for Fiat and capital goods (i.e. light and commercial vehicles, trucks, agriculture and construction equipment) for Fiat Industrial. In this way, being characterized by different business cycles, the business risk profile would have been reduced and also the market would have been able to better understand the potential of these companies, translating into a higher valuation of the two stand-alone companies.

In **2011** we can observe a reduction of about 24% in NAV compared to the previous year. This negative performance can be attributed to external macroeconomic dynamics. Starting from 2010, financial crisis turned into a sovereign-debt crisis, shifting the centre of attention from the private to the public sector. The sovereign crisis spread from Greece to other southern European countries, including Italy, determining a substantial increase in the interest rates on sovereign borrowing and raising doubts on the future of Europe's monetary union. Despite the fact that about 60% of Exor's revenues in this year comes from outside Europe, Agnelli's holding is perceived as predominantly European and also, because of the nature of its investments, as highly exposed to economic cycles. All these elements are reflected in the bad market performance of Fiat S.p.A. in the second-half of the year and in the reduction of Exor NAV during the year.

In **2012** Exor has performed several actions in order to simplify its business and corporate structure. First of all, it decided to reduce the number of smaller investments (e.g. divestment of Alpitour, BTG Pactual and Vision) in order to better focus on the larger ones, as it has been observed that the presence of smaller holdings in an investment portfolio may dilute the overall performance, and this because the management attention decreases when the amount of capital allocated is low, thus leading to overall underperformance (Exor Annual Report, 2012). The cash available from these proceeds has been mainly used for investment in The Black Ant fund and the acquisition of Arenella Immobiliare s.r.l. The second important action was the streamlining of Fiat and Fiat Industrial capital structures, by converting preferred and saving shares into a single class of ordinary stocks.

2013 has been a key year for Exor, with NAV increased by 16.2% compared to the previous year. The main determinant of this increase has been the disposal of the entire investment (15% stake) in SGS S.A., world leading operator in verification, testing, control and certification

activities. The operation has been performed as part of a strategy based on continuous portfolio evaluation and optimization. During Exor's holding period (2000-2012), SGS focus has always been on operational improvement and revenues growth and its market capitalization increased approximately fourfold. The transaction generated net proceeds for 2 EURm and a capital gain of 1.5 EURm which, together with the amount of dividends received over the years, implied a fivefold cash-on-cash return on the initial investment. With the SGS disposal, we have a decrease in the value of the investments which is partially compensated by the Fiat market value increase during the year. At the same time, the sale is reflected in the increase in "Cash and cash equivalents" (+198% with respect to the previous year), reducing the company's LTV⁶ to negative levels. The combination of these dynamics positively contributed to the NAV estimation.

The intention to simplify the capital structure and governance of the Company is visible in the mandatory conversion of preferred and saving shares into ordinary shares in 2013. This operation allowed to guarantee a greater transparency to the external market and to eliminate classes of shares with very limited trading volumes. With the conversion into ordinary shares, also the latter have benefitted from greater liquidity.

2014-2016 can be seen as the reinvestment phase in Exor's history. These have been crucial years in Exor's transformation, with corporate actions resulted in the realization of a more balanced portfolio, as it is today.

The first transformation, promoted by Sergio Marchionne, is about Fiat with the acquisition of the remaining shares it did not already own in Chrysler, which enabled the creation in October 2014 of FCA, with the merger of Fiat S.p.A. with and into Fiat Investments N.V., becoming the world's seventh-largest auto manufacturer. In December 2014, Exor underwrote with an investment of about 700 EURm, its largest investment in the year, FCA mandatory convertible bonds (with conversion in 2016). With this deal, Exor preserved its ownership interest in FCA and benefitted from a 7.9% coupon per annum. In 2014, FCA also announced the spin-off of Ferrari which has been completed in January 2016. The acquisition of Chrysler during the crisis, the separation of Fiat from the agricultural and construction equipment assets conferred to Fiat Industrial then becoming CNH Industrial and the announcement of Ferrari's spin-off are all a clear signal of a continuous evolution of the company beyond the organic growth. In 2016, Fiat

⁶ Loan-to-Value (LTV) is the ratio between net debt at the holding company level (+ gross debt – cash and cash equivalents) and the appraised value of its investment portfolio (GAV). It is used by credit rating agencies to evaluate the financial risk profile of a company.

S.p.A. transformation can be considered completed: from an Italian conglomerate to three distinct strong global entities (FCA, CNHI and Ferrari).

Another important event is, in 2015, the disposal of Cushman & Wakefield, a real-estate business present in Exor's portfolio for about a decade. After having overcome 2008/2009 financial crisis, which hit C&W very hard, thanks to a process of transformation into a global company - mainly through organic growth - Exor was able to sell its stake generating net cash proceeds of 1.1 EURbn and a capital gain of nearly 600 EURm on the initial investment.

The amount of cash realized thanks to the exit from SGS in 2013 and C&W in 2015 has been then used to perform several investments, always focusing on the potential impact on NAV performance.

The first decision has been the increase of the investment in The Economist Group from 5% to about 44%, becoming therefore its largest shareholder. Given the changes in the publishing industry, The Economist Group has been able to shift from advertisement-based revenue to paid circulation and from the print to the digital world, resulting to be a highly profitable business.

PartnerRe

Let's focus now on the most important corporate action undertaken by Exor in the period: the acquisition of PartnerRe during 2015 and finalized in the first quarter of 2016. PartnerRe is a reinsurer company based in US, with a diversified geographical exposure and technical portfolio. Reinsurance companies play a critical role in the insurance industry value chain: primary insurers cede to reinsurers a share of their premiums, and associated liabilities, because they do not have sufficient capital or are concerned about earnings volatility and portfolio risk concentration. Reinsurers absorb the most volatile risks, i.e. the ones more unlikely to happen but with potentially considerable impacts (e.g. hurricanes); however, since they assume shares of exposures from a large number of primary insurers, they are able to sufficiently diversify the risk of their portfolio, both in terms of sector and geography.

There is a number of reasons behind this operation:

- First of all, reinsurance sector has historically performed well, offering returns in excess of their cost of capital and higher than the MSCI World Index (considering the period 1995-2015, the reinsurance sector has realized an annualized TSR of about 11% with respect to 6.5% delivered by the MSCI World Index – *Source*: Annual report 2015);
- Secondly, reinsurers usually generate strong cash flows, mostly distributed to shareholders in form of dividends or buybacks as it is not a high-capital intensive sector

so they require little capital expenditure in order to operate, differently from the industrial sector, which has always represented the major concentration of Exor's investments;

- Thirdly, an investment in the financial services sector would allow a considerable diversification in portfolio, with PartnerRe representing about 38% of GAV in 2016, despite the weakening in the portfolio's liquidity due to an increase in the portion of unlisted assets over GAV. The portfolio diversification is also in terms of FX, increasing the weight of the USD;
- Finally, within the reinsurance sector, the choice of PartnerRe has been determined by several elements: the fact that it was an industry leader, with a global presence and a diversified product offering; the fact that it had a solid capital structure, a conservative and prudent reserving strategy and the ability to historically outperform its industry peers; the fact that it would improve Exor's portfolio credit quality since PartnerRe credit profile is widely in the investment-grade category (S&P ratings: A-/Stable in 2016); the fact that it is exclusively focused on reinsurance business, avoiding to enter into competition with its own clients, unlike most of its competitors who were aggressively trying to grow in the primary insurance sector.

In 2016, PartnerRe also introduced Real Estate as a new asset class in its investment portfolio, mainly with the acquisition from Exor of the participation in Almacantar. With this transaction, PartnerRe diversified its portfolio and Exor used the entire proceeds to reduce its debt.

Ferrari

The last important corporate action that needs to be mentioned is the completion of the spin-off of Ferrari from FCA and its listing on MTA in January 2016 (listing in the NYSE in October 2015). With this operation, Exor has become direct shareholder of Ferrari (in 2016: 22.91% stake of issued capital and 32.75% of voting rights).

Ferrari positioning in the car industry is very peculiar. During the years, the brand has become a symbol of excellence, quality, performance, exclusivity and "Made in Italy". In order to fully exploit the value of the brand, Ferrari also started a diversification strategy outside the core business of cars and into other luxury market categories with licensed products. Ferrari cannot be considered solely as a car manufacturer because it can rely on a very loyal customer base (most of the cars are sold to existing Ferrari owners and about 30% of the clients are owners of more than one Ferrari), because of its high price point and related low sold volumes and because of its high brand recognition, also thanks to the presence in Formula 1 racing championship. As

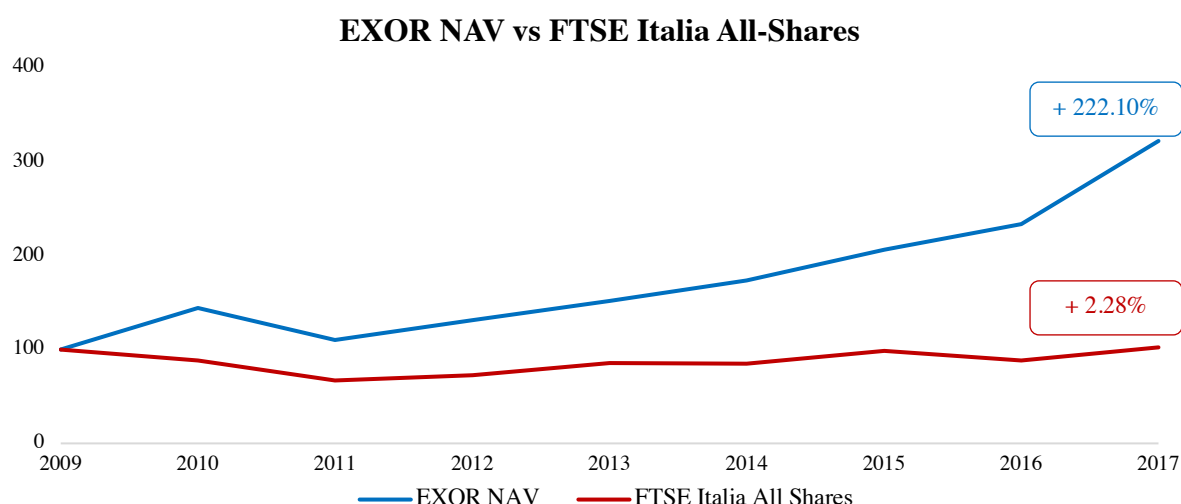
a result, buying Ferrari cannot be seen as buying a car but rather a status symbol and, for this reason, Ferrari has to be considered as a luxury company rather than a carmaker. It thus appears evident that Ferrari's business model is completely different from FCA's one, as FCA is focused on the cars mass market. The operation of spin-off has been of strategic importance since it allowed Ferrari to obtain visibility in the market, unlocking its value stuck within FCA's mass-market status, and gave Exor a direct exposure to a luxury brand asset.

Looking at the NAV evolution, we can observe a sharp increase of about 50% from the beginning of 2014 until 2016. This outstanding performance is connected to the described corporate actions, which allowed to diversify and rebalance the portfolio and to streamline the company capital structure. This activism in portfolio reshuffle has also been visible in the market performance of the underlying assets. In 2015, FCA market performance (+34.4% in share price YoY), reflecting its outstanding operating performance and the market expectations about Ferrari spin-off, has significantly contributed to Exor NAV performance. In 2016, CNHI market performance (+25.5% in share price YoY) and Ferrari market performance (+23.5% in share price YoY) positively contributed to Exor NAV performance.

In **2017** we can observe a further increase in NAV. The main contributions come from Exor's industrial assets, which came again representing about 65% of GAV. In particular, FCA market performance (during the year it almost doubled its market cap) and Ferrari market performance (+60% in share price YoY) have been the main determinants of Exor outstanding NAV performance (+38% YoY). A less positive contribution has come from PartnerRe, which had to face a challenging environment, determined by the high frequency and severity of catastrophic events in the Americas during the year.

Summing up, during the considered period, Exor's NAV registered a significant increase (+16% CAGR). After having analysed the NAV evolution over the years, the successful path can be considered to be mainly triggered by the corporate strategy that has been implemented. Minor asset disposals aimed to streamline the portfolio and concentrate on larger investments, acquisition and spin-off operations aimed to balance, globalize and diversify the portfolio exposition and corporate actions aimed to simplify the holding structure and the control chain allowed Exor to realize a remarkable reshuffle of its portfolio, which has directly been traduced in a significant value creation. This active and dynamic approach in portfolio management has also positively impacted the market performance of the underlying assets, thus further increasing Exor's NAV.

Exor performance vs. market



Source: Bloomberg, annual reports and personal re-elaboration.

If we look at the Exor's NAV evolution, during the period 2009-2017, NAV increased by 222.10%, exceptionally outperforming the FTSE Italia All-Shares Index, which increased by just 2.28% in the same period.

Taking into consideration Exor's global profile as investment holding, FTSE Italia All-Shares Index could be considered not the most suitable benchmark. The company has indeed deliberately chosen to benchmark itself against the global MSCI World Index, which captures large and mid-cap representation across 23 Developed Market countries, with the explicit target of outpacing it. During the period 2009-2017, Exor NAV/Share has shown a 22.1% CAGR, outperforming its benchmark by 9.7 p.p.

EXOR NAV PER SHARE PERFORMANCE vs. THE MSCI WORLD INDEX (in US\$)

YEAR	Annual percentage change		DELTA (1-2)
	1- EXOR NAV/Share (\$)	2- MSCI World Index (\$)	
2009	113.2	55.6	57.6
2010	33.7	9.6	24.1
2011	-26.2	-7.6	-18.6
2012	21.6	13.2	8.4
2013	21.0	24.1	-3.1
2014	0.8	2.9	-2.1
2015	8.4	-2.7	11.1
2016	9.6	5.3	4.3
2017	56.9	20.1	36.8
Compounded annual rate	22.1	12.4	9.7

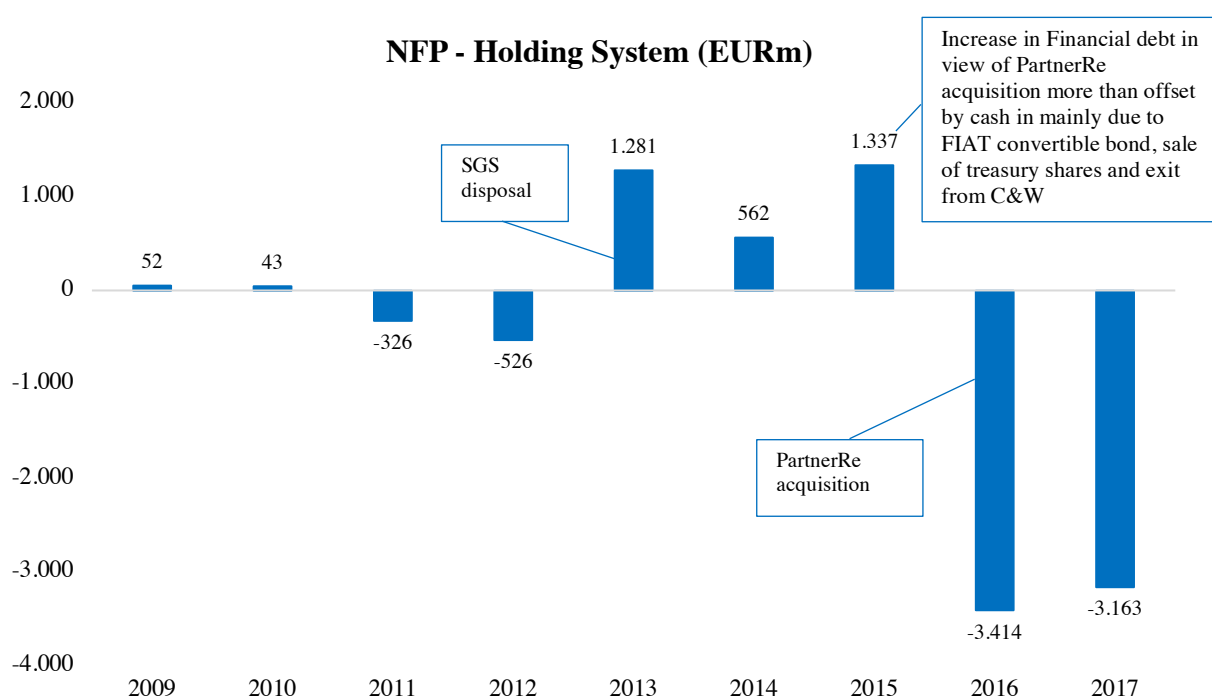
Note: data in 2009 starts from March 1st, the date before EXOR's listing on Borsa Italiana

Source: Company's annual report (2017)

Financial structure

The corporate actions undertaken during the years, in the context of an active portfolio management, are directly related to the financial strategy and structure of the company.

In the analysis of the financial structure policy, the Net Financial Position of the Holding System – i.e. Exor N.V. and the subsidiaries which carry out activities regarding equity investments and financial market investments – has been taken into consideration, as reported in the company annual reports, since it is considered the best representation of the financial resources and commitments directly attributable to and managed by Exor.



Source: annual reports. NFP calculated as Cash and cash equivalents – Gross financial debt.

Exor's history has been always characterized by a conservative capital structure and a relatively prudent management approach regarding the investment policy, with a limited tolerance for debt both at holding level and subsidiaries, reflected in a loan-to-value ratio always well placed below the 20% threshold (except in March 2016, immediately after PartnerRe acquisition, when LTV was about 28% and in December 2016 when LTV was almost at its limit of 20%). In 2013 we can observe a substantial increase in Cash and cash equivalents thanks to the proceeds from SGS disposal, which reduced company's LTV to negative levels. In 2015 Gross financial debt increased in view of PartnerRe and The Economist acquisitions but it was more than offset by the cash in resulted from C&W disposal, the placement of Exor treasury stock and FCA mandatory convertible bond. The acquisition of PartnerRe in the first half of 2016 has significantly changed Exor's financial structure, shifting to a more aggressive and leveraged

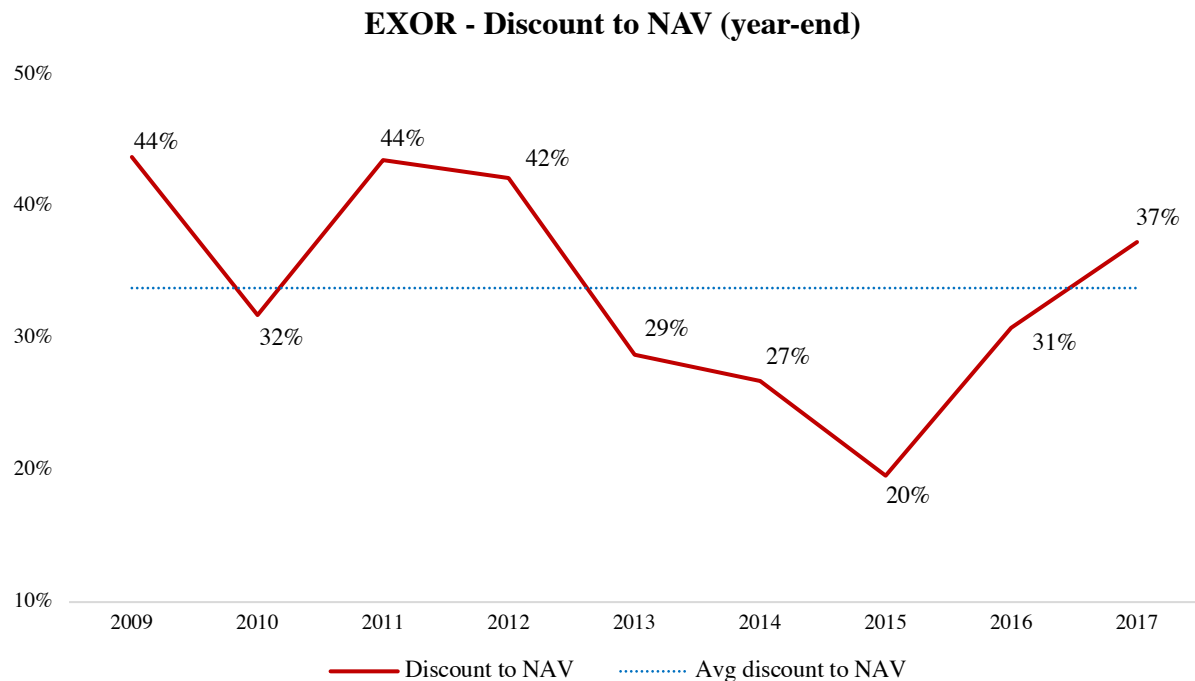
one. In addition to debt, Exor used all the cash (keeping just some cash equivalents) to finalize this operation in March 2016.

Starting from this date, Exor began a gradual deleveraging process, with a reduction of about 30% only in 2016. This debt reduction has been achieved through a combination of:

- Disposals of some non-core assets in the portfolio. The most important transactions were the divestment of Almacantar (sold to PartnerRe) in 2016 and the redemption of the Black Ant fund in the first quarter of 2017. In addition to these major operations, Exor also cleaned its portfolio with other small divestments (e.g. Benijay, RCS MediaGroup, Arenella Immobiliare and other investment funds);
- Dividends received, amount which substantially increased in 2016 compared to the previous year thanks to PartnerRe and Ferrari;
- Minimization of the investments. The only investment the company has realized in the period, on top of PartnerRe, was WellTec, a world leader in the field of robotics technology for the oil and gas industry.

Discount to NAV

After having investigated, in the previous section, the NAV evolution and the related main determinants, we continue with the analysis by considering how the market has changed its valuation about Exor during the reference period. Thus, by comparing in each year the market capitalization to the NAV, we can study the discount to NAV dynamic and try to understand its key factors.



Source: personal calculation

Exor is characterized by the persistence of a discount between its Market Value and NAV.

Starting from a very high level of discount to NAV (about 45%) in 2009, we can observe a substantial squeeze in 2013, when the discount reached 29%. This change can be mainly attributed to the mandatory conversion of Exor's preferred and saving shares into ordinary shares. This operation allowed to eliminate classes of shares with very limited trading volumes and to increase the liquidity of ordinary shares. Moreover, the conversion contributed to simplify the company's capital structure. The reduction in the discount to NAV applied by the market (Exor's stock price increased by about 50% in 2013 compared to the previous year) can be thus attributed to the increase in the liquidity of the shares and to the minority shareholders' perception of a greater transparency from the company.

In 2014 and 2015, Exor's discount to NAV reached its lowest levels and this can be attributed to the extraordinary managerial performance and value creation of that period. Thanks to the

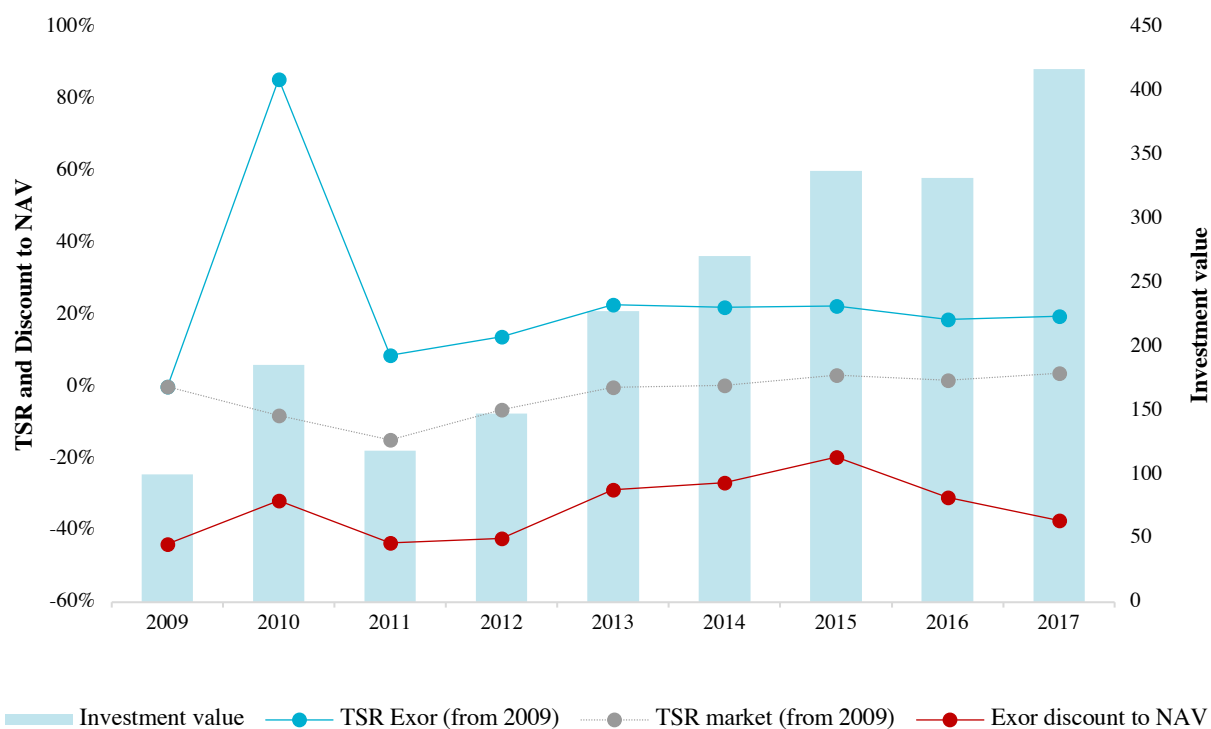
corporate actions undertaken, the company has been able to rebalance its asset portfolio with the investment in PartnerRe and to simplify it with several disposals of minor investments, reducing in this way its excessive diversification. The result was a portfolio reshuffle, characterized by a concentration on a very selected number of large and value creating investments. This active management of portfolio companies has been rewarded by the market with a re-rating of Exor and a reduction in the discount to NAV, which reached the level of 20% in 2015.

In 2016 and 2017, Exor's discount to NAV widened, reverting to its historical mean. One possible explanation can be the reduced liquidity of the portfolio because of an increase in the portion of unlisted assets after PartnerRe acquisition. In the 2017 Letter to shareholders, Exor CEO focuses on the discount to NAV attributed by the market. He said that, as for Exor's peers, the discount is usually motivated by the perceived lower transparency of the holding structure and the risk of expropriation from the controlling family. He pointed out that, on the other hand, family-owned businesses have an enduring strength deriving from the prudence and sense of responsibility in managing the portfolio and strong values.

In 2017 Exor has a discount to NAV of 37%, mainly driven by the fact that the strong re-rating of FCA (+73% YoY) and Ferrari (+60% YoY), which together constitutes almost the 50% of total GAV, has not been reflected in Exor's stock price, which increase by only 25% over the same period. Because of this level of discount, the CEO has pointed out that buying Exor means buying its listed assets and getting PartnerRe for free. He also said he believed that the constant effort put in the improvement of the value of the assets Exor owns will be reflected in the market value, with a re-rating for Exor and a tightening of the discount to NAV.

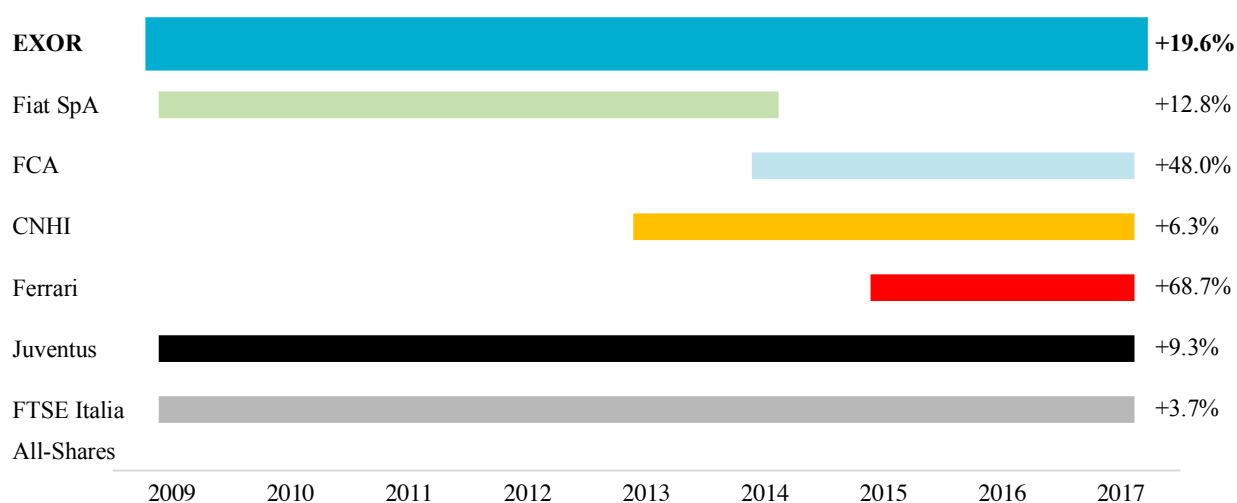
Total Shareholder Return

Total Shareholder Return can be analysed in connection with the performance of the underlying assets (listed and not listed) in the holding company's portfolio and the discount to NAV dynamic over the years.



Source: Bloomberg (TSR) and personal re-elaboration

Annualized TSR



Source: Bloomberg

Over the period 2009-2017, Exor delivered an annualized TSR of 19.6%, compared to 3.7% returned for the FTSE Italia All-Shares Index.

Assuming an investment value of 100 in 2009, Exor has delivered exceptionally positive returns to its shareholders over the years, as the initial investment value more than fourfold during the period 2009-2017. In particular, Exor delivered an annualized TSR of 85.7% in the first year (period 2009-2010), then started to stabilize to around 20% if we consider an investment holding period of four to eight years (from 2009-2013 to 2009-2017).

This considerably good performance by Exor can be mainly associated with the performance of its underlying assets. For the purpose of this analysis, referring to the period during which the assets are part of the portfolio, only the listed assets have been taken into consideration, although, however, the unlisted assets also exert an influence on the return being delivered. In particular, Exor's TSR delivered in the period 2009-2017 has been predominantly triggered by FCA (TSR equal to 48% in the period 2014-2017) and Ferrari (TSR equal to 68.7% from its listing in January 2016 until 2017 year-end), which altogether represent almost half of the total Exor's investment portfolio value in 2017.

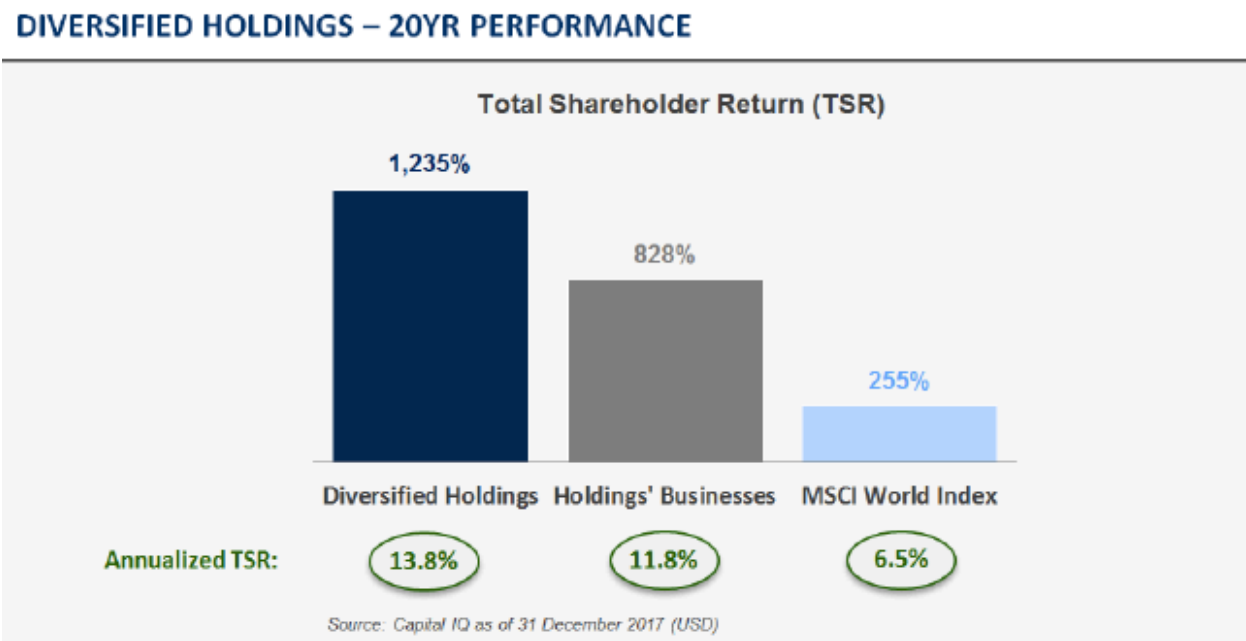
In analysing the TSR, we also consider the dynamic of the discount to NAV, which is persistently applied by the market to Exor. During the analysed period, we can observe a squeeze of the discount to NAV, which from a level of 44% in 2009 decreased to 37% in 2017. This dynamic is connected with the active portfolio management approach adopted all over the period, which therefore indicates that the value creation process triggered by the adopted corporate strategy, constantly focused on portfolio optimization and holding structure simplification, has also been recognised by the market. However, this reduction in the discount to NAV has a positive incidence of roughly only 1% on the TSR equal to 19.6% delivered by Exor in the period 2009-2017.

Combining all these elements together, it can be derived that Exor, despite the persistent discount to NAV, has delivered a considerably high return to its shareholders, mainly thanks to the significant good performance of the listed assets in its portfolio, producing almost five times the return of the FTSE Italia All-Shares Index.

This positive performance of Exor as an holding company can be also linked to a study presented in the Exor's 2017 annual report about the performance of a worldwide sample of diversified holding companies⁷, which actively allocate capital and are proactive owners of their

⁷ For the analysis have been selected 14 Diversified Holdings with a market cap in excess of \$10 billion in the Americas, EMEA and APAC countries.

businesses. As it can be inferred from the data presented, over the period 1997-2017, the selected diversified holdings have been a good investment since they outperformed the business they own⁸ by about 50% and produced almost five times the return of the MSCI World Index denominated in Dollars.



Source: Company’s annual report (2017)

⁸ Analysing the investment portfolio of these holdings, the business they own considered meet the following criteria: 1) a market cap in excess of \$0.5 billion; 2) the holding owns at least 5% of the business’ economic capital; 3) they have been in the holding’s portfolio for at least the last 10 years. 67 businesses met these criteria.

2.3 ITALMOBILIARE

Italmobiliare is one of the Italian leading holding companies, which holds and manages a diversified investment portfolio with a strategic vision supported by a financial and industrial history of more than 150 years. It was founded in 1946 by Italcementi S.p.A. with the aim of managing the investments in areas other than construction materials. In 1979, through a reverse merger, Italmobiliare became the holding for the entire group.

Starting from 1980, Italmobiliare shares are listed on MTA (Mercato Telematico Azionario managed and organized by Borsa Italiana S.p.A.). Italmobiliare is part of the FTSE MIB index.

Italmobiliare is controlled by the Pesenti family through the company Epifarind B.V., which holds 44.00% of its share capital (*see fig. 4*). Being a historical family company, with origins at the end of the 19th century (when Italcementi was established), several members of the Pesenti family directly participate in the management of the company and have a seat in the Board of Directors, as CEO (Carlo Pesenti) and as Non-Executive Directors (seven of the thirteen Non-Executive Directors are instead qualified as independent under Italian Corporate Governance Code).

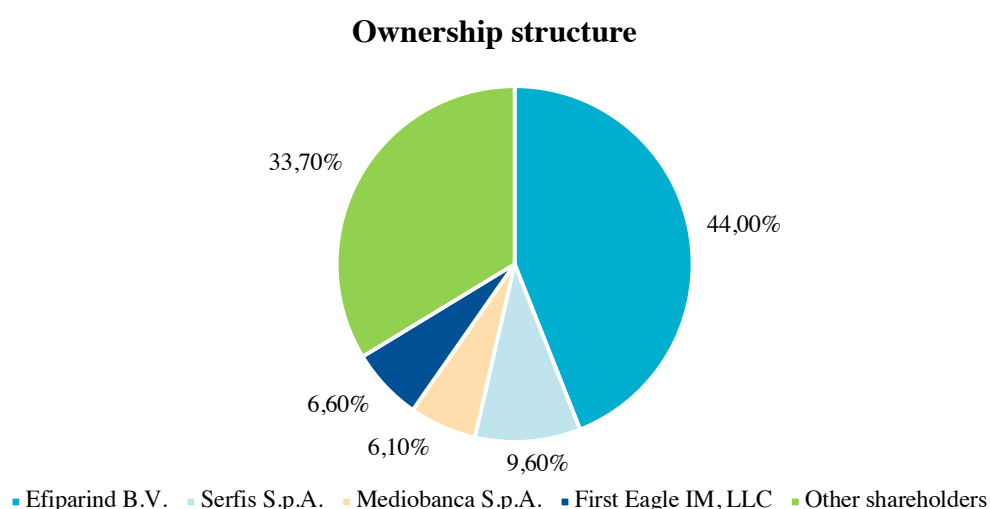


Fig. 4 – Ownership structure. *Source:* Company's annual report (2017)

Current asset portfolio

Italmobiliare is a holding company with a portfolio of investments in diversified sectors, in both publicly listed and unlisted companies. Italmobiliare is a quite active shareholder, whose strategy for managing the portfolio is to hold a limited number of “core” investments, over which a strategic and financial control is exercised, in diversified sectors, with a strong boost in terms of internationalization and a limited use of financial leverage. The portfolio can be considered to be divided in: investments in portfolio companies, i.e. a close number of controlled or related companies, with Italmobiliare representatives on their governance bodies; investments in private equity funds, with the aim of taking up opportunities in geographical areas or business sectors where Italmobiliare is not directly involved; minority investments in diversified sectors with interesting growth prospects or steady investment returns. The portfolio has a medium-to-long-term investment horizon, with a focus on value creation.

As of 31st December 2017, the main investments in Italmobiliare’s portfolio are the following:

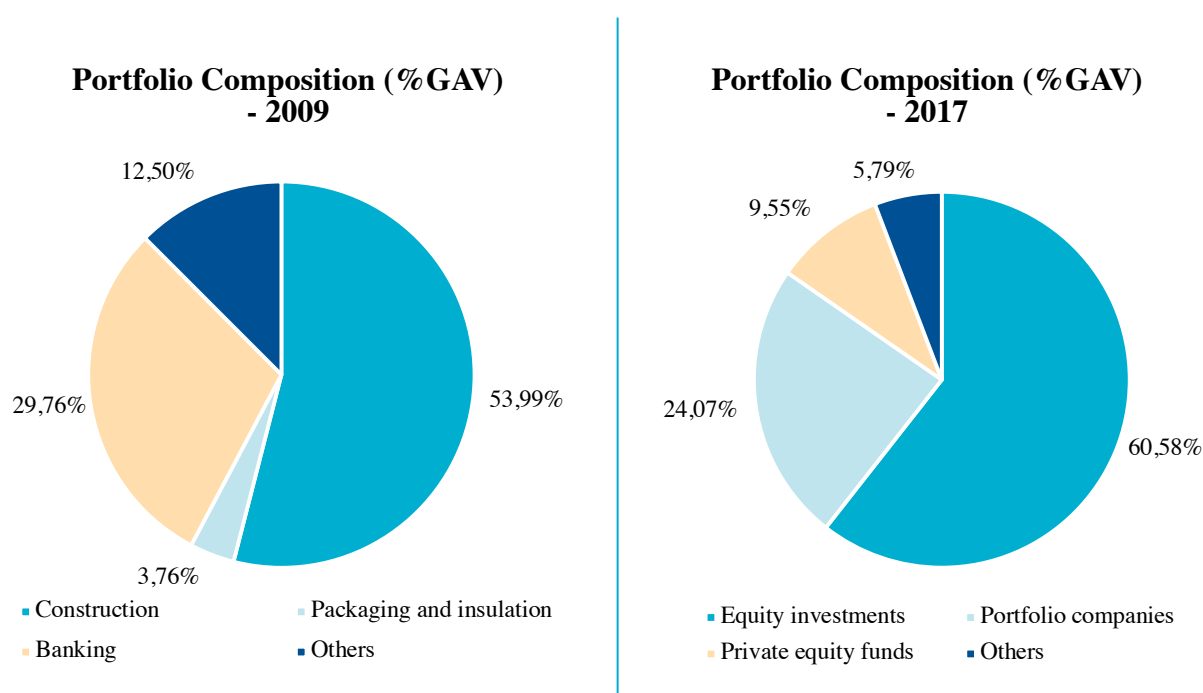
- *Sirap Gema* (100% stake) is active in the production and sale of products for the packaging of fresh food. It is characterized by an international presence and it is one of the leading player in Europe, with plants and distribution centres in fifteen countries;
- *Italgen* (100% stake) produces and distributes electricity from renewable resources on national and international markets, with hydroelectric power plants in Northern Italy and wind farms in Bulgaria, Turkey and Morocco;
- *Tecnica Group* (40% stake) is a sportswear manufacturer in the market of outdoor footwear and winter sports equipment, with a brand portfolio including some of the industry’s historic names;
- *Clessidra SGR* (100% stake) is the leading manager of Private Equity funds exclusively dedicated to the Italian market through the funds Clessidra Capital Partners (CCP), Clessidra Capital Partners II (CCPII) and Clessidra Capital Partners III (CCPIII), in which Italmobiliare is anchor investor;
- *HeidelbergCement* (2.4% stake) is one of the world’s largest building materials companies. The core activities include the production and distribution of cement and aggregates and it operates with production sites in sixty countries worldwide. It is listed on the Frankfurt Stock Exchange.

2.3.1 Performance analysis

NAV evolution

Considering the period 2009-2017, Italmobiliare has always been focused on value creation by leveraging its financial solidity and its determination to pursue new investments with a long-term outlook. Especially in the last two years, Italmobiliare underwent an important transformation, mainly aimed at diversifying the portfolio and simplifying the holding structure.

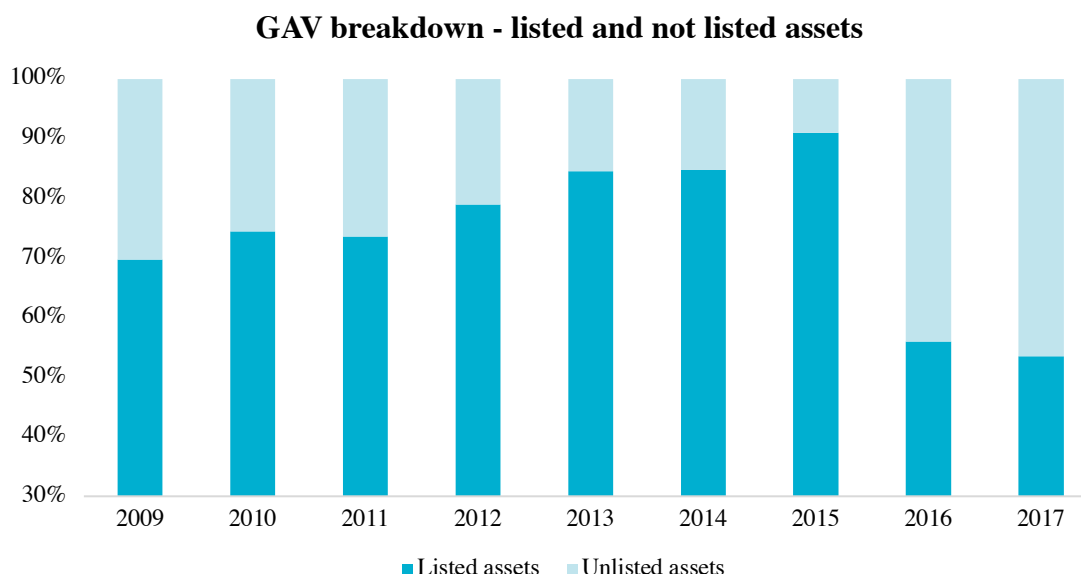
The “activism” in managing the asset portfolio has determined a considerable reshuffle over the last few years and this is immediately evident by looking at the Gross Asset Value (GAV) evolution in the composition:



Source: Personal re-elaboration of Company's Annual Report data (2009 and 2017)

Making a comparison between the portfolio compositions at the beginning and at the end of the period considered in this analysis, the diversification in GAV is immediately evident: while in 2009 the portfolio was heavy concentrated on the construction materials sector with Italcementi group (53.99% of GAV – 47.6% of NAV), in 2017 it appears to be more balanced thanks to the expansion of new operations in the private equity segment starting from 2016 (9.55% of GAV) and the increased investments in portfolio companies, i.e. Sirap Gema, Italgem, Tecnica Group and Clessidra SGR, belonging to diversified sectors (24.07% of GAV). In this way, the dependence and exposition to the construction business has been reduced, accounting in 2017 for about 44% of GAV (28% of NAV) with the investment in HeidelbergCement, which is part of “Equity investments” category.

Another important characteristic to consider is the GAV composition in terms of proportion between listed and unlisted assets.



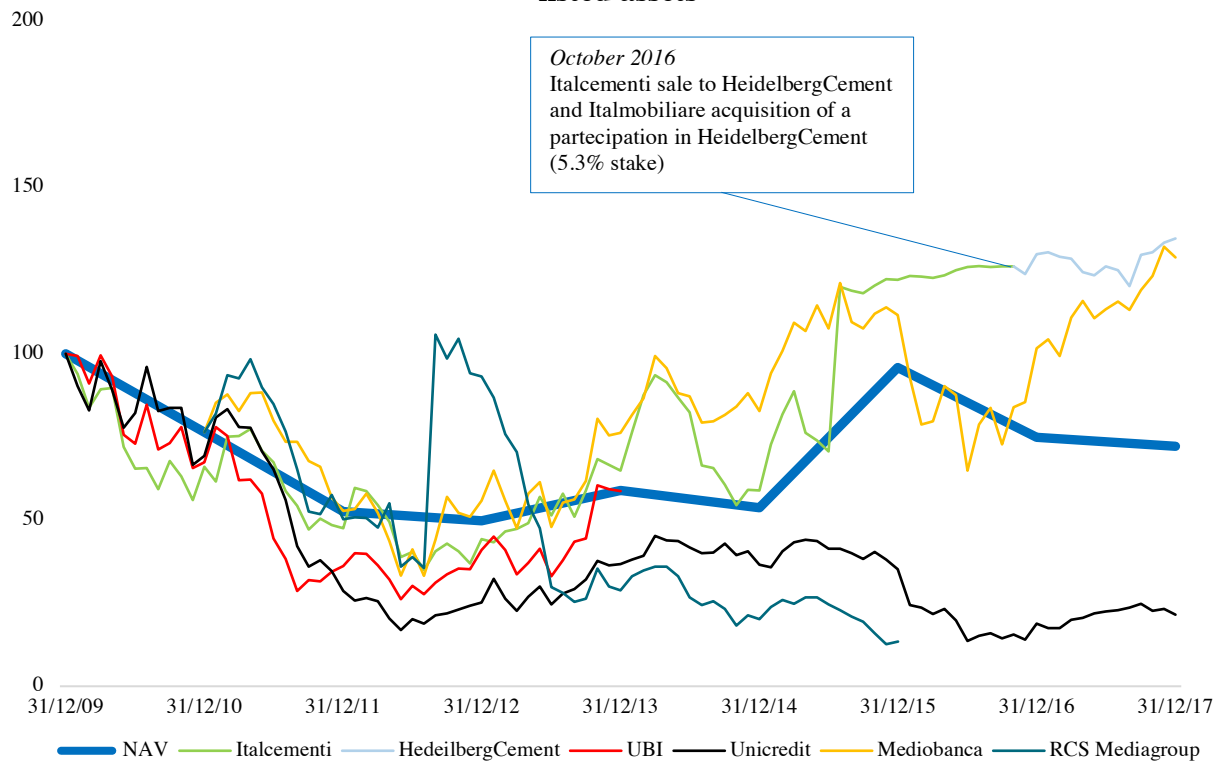
Source: Personal re-elaboration of Company's Annual Reports data

Italmobiliare's portfolio has always been composed of a significant share of listed assets, representing in 2009 about 70% of GAV and reaching the level of about 90% of GAV in 2015 due to the increase in Italcementi weight on GAV, triggered by its strong market performance in that period. In 2016, the sale of Italcementi has weakened the portfolio liquidity and the market value of listed assets, which significantly diminished to about 56% of the investment portfolio and it remained stable in 2017.

During the period 2009-2017, Italmobiliare's NAV registered a decrease with about a -4% CAGR.

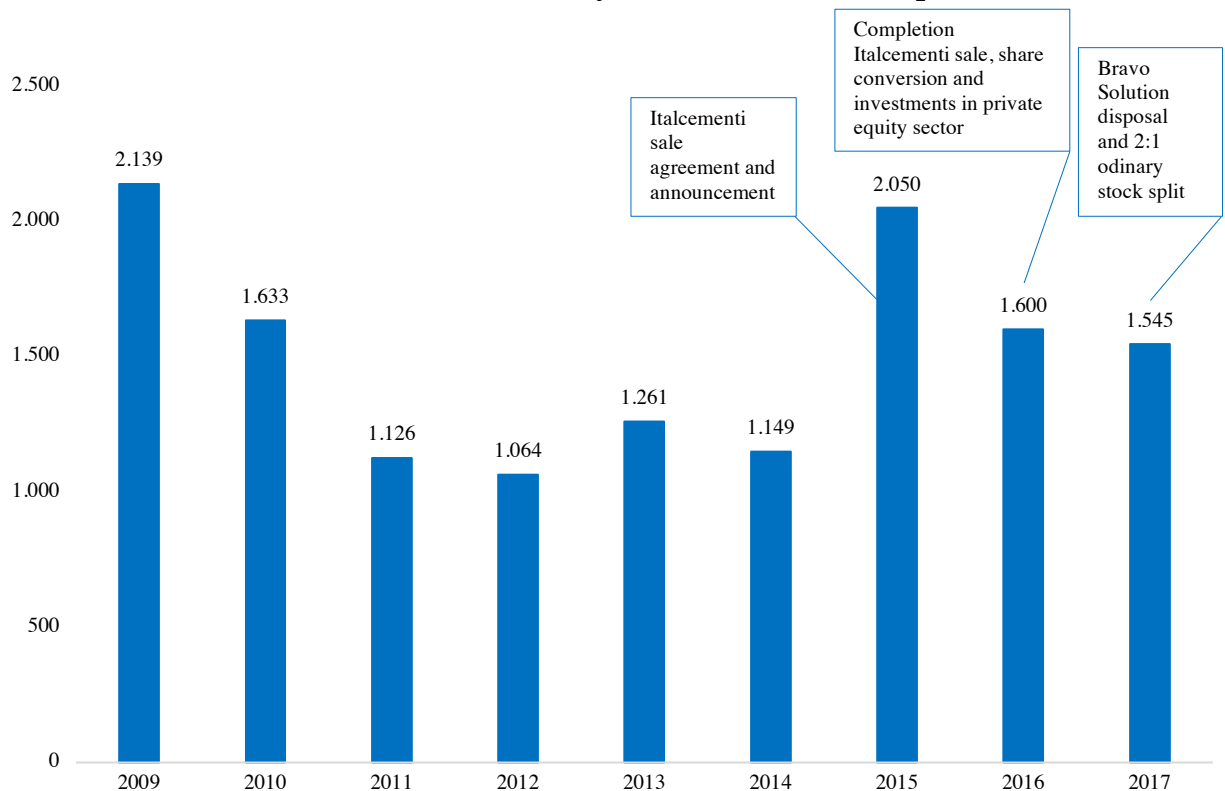
In analysing this dynamic, the presence of a potential impact deriving from the subjectivity and the different approaches used in the valuation of non-listed assets needs to be considered. In particular, as explained in Italmobiliare's annual reports, the non-listed companies are valued, when determinable, based on market multiples or on specific experts' valuations; when such information is not available, non-listed companies are valued based on the book value of equity, as reflected in the most recent approved financial statements.

ITALMOBILIARE NAV and Market Performance of main underlying listed assets



Source: Bloomberg, annual reports and personal re-elaboration. NAV taken from Company's annual reports.

ITALMOBILIARE NAV (EURm, year-end) and main corporate actions



Source: Company's annual reports

We start now analysing NAV evolution. Italmobiliare has been characterized until 2015 by an almost unchanging investment strategy, without a particularly active portfolio management approach. The portfolio has always been concentrated in the cement and construction materials sector with the core investment being Italcementi, in addition to the relevant exposure to the financial sector with stakes in major Italian banks (e.g. Mediobanca, Unicredit and UBI) and miscellaneous interests in the media sector and non-listed assets. This portfolio configuration was determined in 2010 with Italmobiliare's acquisition - from the subsidiary Italcementi - of the equity investments in RCS MediaGroup and Mediobanca. This transaction aimed to simplify and rationalize the Group structure, by enabling Italcementi to focus only on its core business and by optimizing the management of equity investments, thus ensuring a more effective and flexible approach, thanks to the direct control by Italmobiliare. This operation was part of a reorganization project of Italmobiliare's activities in the financial sector, which was performed during the period 2010-2012. The project aimed at shortening the control chain of the investments with a consequent reduction in the management costs, simplification and greater efficiency in the group structure.

During the period **2009-2012** we can observe a continuous reduction of NAV, which has halved during these years. This negative performance can be attributed to external macroeconomic dynamics. The uncertainty in the credit market and the sovereign-debt crisis in southern European countries had a strong impact on the stock market, especially on the securities of the financial sector, to which Italmobiliare was significantly exposed. The negative market performance of the investments in the banking sector (in the period: UBI share price almost -60%, Unicredit share price almost -70% and Mediobanca share price almost -40%) was thus directly reflected in the NAV reduction. Furthermore, this negative momentum in the international economic scenario had also a strong impact on the cement business, which represented almost 50% of total investment portfolio value. The crisis in the real estate sector was reflected in a weak cement demand in key countries, such as western-central Europe and US, plus Egypt because of its complex political transition in 2011, which was only partially compensated by the positive trend in some emergent countries, especially in Asia. Moreover, the concomitant increase in the energy prices, which represent a relevant portion of the variable production cost in this sector, needs to be considered. This critical scenario was directly reflected in Italcementi bad market performance (share price almost -55% during the period), thus even more negatively impacting on Italmobiliare's NAV.

In **2013**, the mitigation of tensions on sovereign debt in the euro area and the signs of recovery in the world economic activity were reflected in the stock prices of most sectors and countries. The positive market performance of Italmobiliare's investments in the financial sector and, above all, the strong re-rating of Italcementi (+47% YoY), which represented almost 65% of GAV, triggered the increase in Italmobiliare's NAV of about 19% compared to the previous year.

2015 has been a key year for Italmobiliare, with NAV increased by almost 80% compared to the previous year. During the year, the Italmobiliare Group began an extensive review of its scope of operations and its portfolio management strategy, resulting in a more active approach. This led to an agreement in July with the HeidelbergCement group for the sale of the equity investment in Italcementi, to be finalized in mid-2016. The agreement led to the creation of a leading global player in building materials sector, characterized by an undergoing consolidation phase worldwide. The agreement contemplated the purchase by HeidelbergCement of Italmobiliare's stake (45%) in Italcementi and the allotment of HeidelbergCement shares to Italmobiliare, representing a 5.3% stake in the German group, through a reserved share capital increase. Accordingly, Italmobiliare would become the second industrial shareholder of HeidelbergCement with a representative in the Supervisory Board. As part of the same agreement, Italmobiliare has committed to acquire certain non-core assets of Italcementi, which include Italgen (renewable energy sector), BravoSolution (e-procurement) and certain real estate properties. This operation allowed Italmobiliare to secure the financial resources for further development of its investment portfolio and represented for both Italcementi and HeidelbergCement the best option in terms of future growth and value creation, thanks to their complementary profile and synergies exploitation. The market positive expectations about this transaction were reflected in the outstanding Italcementi share performance in 2015 (+107% in share price YoY), which significantly contributed to Italmobiliare's NAV increase over the year.

In **2016**, the refocusing and re-organization plan launched in 2015 continued. First of all, the sale of Italcementi to HeidelbergCement has been completed in July. Secondly, Italmobiliare approved the distribution of an extraordinary preferred dividend to the saving shareholders only, partially in cash and partially in kind with HeidelbergCement ordinary shares, and the simultaneous conversion of the saving shares into ordinary shares. This operation allowed to streamline the Group capital structure and to guarantee a greater transparency to the external market. Thirdly, Italmobiliare realized a diversification in its investment portfolio with new

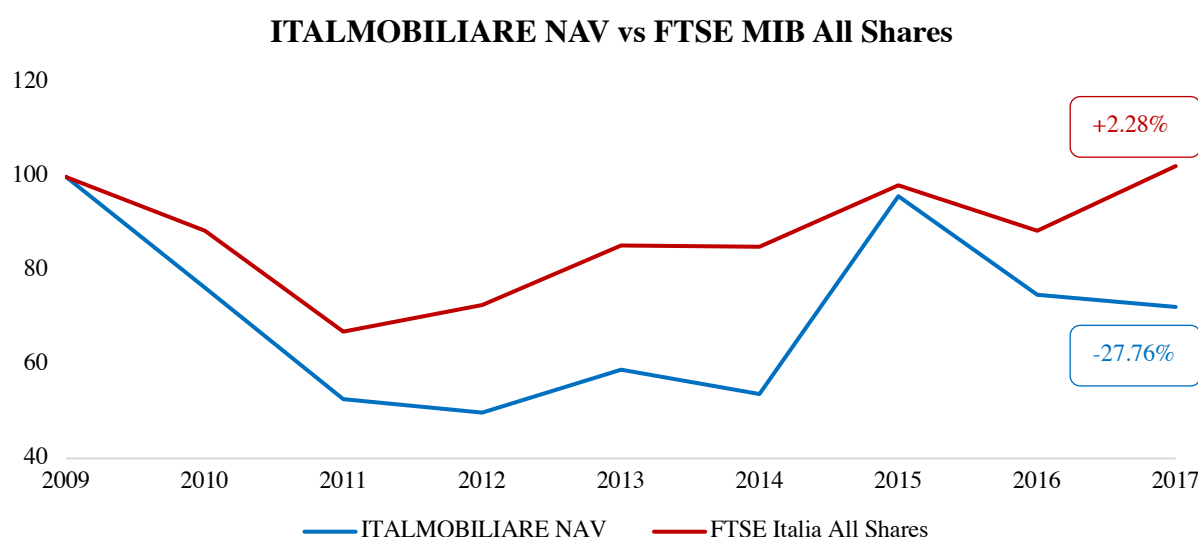
investments in the Private Equity sector, which at the end of 2016 represented about 8% of GAV. The first investment has been in January in a US private equity fund issued by BDT Capital Partners. The aim of this operation was to diversify Italmobiliare's NAV also on a geographical basis through direct participation in co-investments in the US and in Europe and also to enable Group companies already active in the US to access the network of contacts for potential business development in diversified sectors. The second operation has been the acquisition of Clessidra SGR, the main private equity fund manager exclusively dedicated to the Italian market. In 2016, Italmobiliare's NAV decreased by almost 20% compared to the previous year, largely due to the change in the Group structure, in particular the distribution of a special preferred dividend exclusively to saving shareholders. If, however, we consider the proforma situation at the end of 2015, including the effect of the sale of Italcementi and the transactions relating to the conversion of the saving shares, NAV increased by about 6% during 2016, thanks to Italmobiliare's activism in managing its portfolio.

2017 saw a series of active management initiatives in the investment portfolio, which were aimed at creating value with a long-term outlook. The first initiative was the execution of Italmobiliare ordinary stocks' split, at a rate of two new Italmobiliare ordinary shares for each ordinary share. This operation aimed at facilitating the circulation of the shares, boosting the trading volumes among the investors and generating a potential increase in share liquidity. Secondly, Italmobiliare continued the diversification process of its asset portfolio. For this purpose, it decided to become a shareholder of TecnicaGroup (40% stake), a firm operating in outdoor footwear and ski equipment. Moreover, Italmobiliare divested its interest in BravoSolution with the simultaneous acquisition of a 9.5% shareholding in Jaggaer, the world leader in eProcurement, which has taken over control of BravoSolution. This diversification process was also sustained by the expansion of operations in the private equity segment. In 2017, Italmobiliare's NAV decreased by about 3% compared to the previous year. If, however, we consider the proforma situation at the end of 2016, including the effect of the 100 million euro buy-back operation performed in mid-2017, NAV increased by almost 3% during 2017, thus proving Italmobiliare's ability to increase the value of its investment portfolio thanks to the adoption of an active approach. The positive evolution of NAV during 2017 has also been triggered by the good market performance of Italmobiliare's listed assets (e.g. Mediobanca share price almost +27% YoY).

Summing up, during the analysed period, Italmobiliare's NAV registered a decrease (-4% CAGR). However, if we take into consideration the years 2014-2017 as a reference period,

Italmobiliare's NAV has registered an increase of about +10% CAGR. This successful evolution can be considered to be mainly triggered by the active portfolio management approach adopted mainly starting from 2015. In fact, the sale of Italcementi to HeidelbergCement and the concomitant acquisition of a stake in HeidelbergCement share capital, the corporate actions aimed to simplify the capital structure and to give greater liquidity and dynamism to the shares on the stock market, the diversification of the portfolio through disposals, acquisitions and, finally, the entrance in the private equity business allowed Italmobiliare to perform a reshuffle and refocusing of its portfolio, which has been visible in a significant value creation over the last years.

Italmobiliare performance vs. market



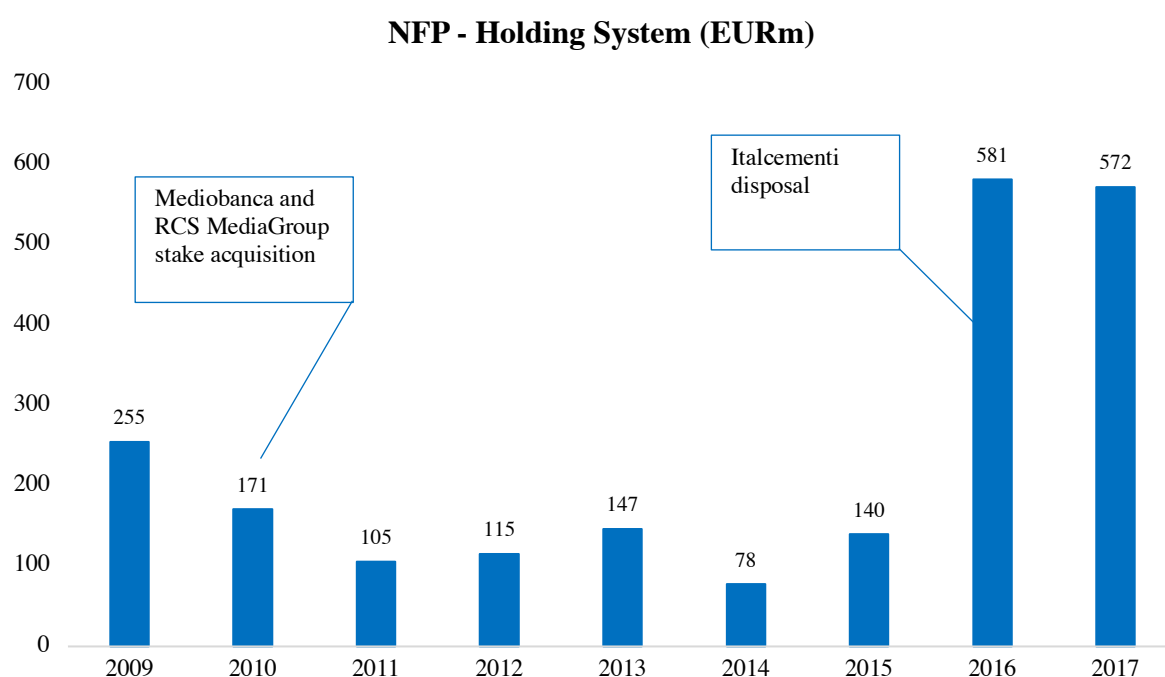
Source: Bloomberg, annual reports and personal re-elaboration.

If we look at the Italmobiliare's NAV evolution, during the period 2009-2017, NAV decreased by 27.76%, underperforming the FTSE Italia All-Shares Index, which increased by 2.28% in the same period. However, if we take into consideration, as reference period, the years 2014-2017, Italmobiliare's NAV registered an increase of about 35%, outperforming the FTSE Italia All-Shares Index by almost 15 p.p.. This successful evolution over the last years can be considered to be mainly triggered by the change in the corporate strategy adopted mainly from 2015, and this confirms the fact that the application of an active portfolio management approach is the best way to generate value.

Financial structure

The corporate actions undertaken during the years are directly related to the financial strategy and structure of the company.

In the analysis of the financial structure policy, the Net Financial Position of the Holding System – i.e. Italmobiliare S.p.A. and the subsidiaries in the financial and private equity segment (e.g. Franco Tosi S.r.l. and Clessidra SGR S.p.A. in 2017) – has been taken into consideration, as reported in the company annual reports.



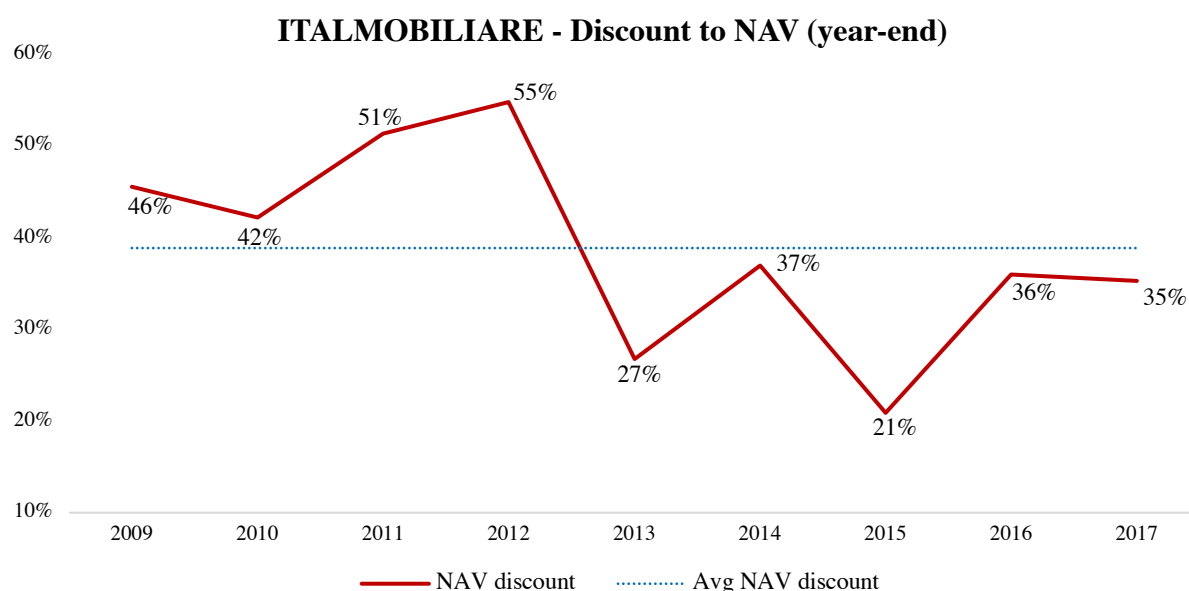
Source: annual reports. NFP calculated as Cash and cash equivalents – Gross financial debt.

Italmobiliare's history has been always characterized by a strongly conservative capital structure and a prudent management approach regarding the investment policy, with limited use of leverage and a significant amount of cash reserves, reflected in a loan-to-value ratio always at negative levels calculated with reference to the Holding System. The available liquidity has been used during the years for the investment plans performed by the company. In 2016 we can observe a substantial increase in liquidity compared to the previous years, mainly due to the sale of Italcementi. Thanks to these resources, Italmobiliare has been able to start its transformation process, which consisted of the following: the acquisition of BravoSolution and Italgem from Italcementi, the investment in private equity funds, the payment of the extraordinary dividend to the saving shareholders with the contextual conversion of the saving shares into ordinary shares, the financing of the buy-back operation, the sale of BravoSolution and the acquisition of a stake in TecnicaGroup. After having performed all these operations,

Italmobiliare can still count on a significant amount of cash reserves, which can be used to further sustain its development plans with an on-going consideration of new possible investments oriented to a long-term value creation.

Discount to NAV

After having investigated, in the previous section, the NAV evolution and the related main determinants, we continue with the analysis by considering how the market has changed its valuation about Italmobiliare during the reference period. Thus, by comparing in each year the market capitalization to the NAV, we can study the discount to NAV dynamic and try to understand its key factors.



Source: personal calculation

Italmobiliare is characterized by the persistence of a discount between its Market Value and NAV.

Starting from a very high level of discount to NAV (about 46%) in 2009, we can observe a further increase until 2012, reaching the level of 55%. This dynamic can be mainly attributed to the difficult macroeconomic context in those years, which strongly impacted on the performance of the underlying assets and thus also on Italmobiliare market performance itself (Italmobiliare share price registered an almost -60% during the period 2009-2012). In 2013, the signs of recovery in the world economic activity triggered a strong re-rating of Italmobiliare's assets, in particular of Italcementi (+47% YoY) which represented almost 65% of GAV. This positive dynamic has been directly traduced in a strong Italmobiliare's market performance

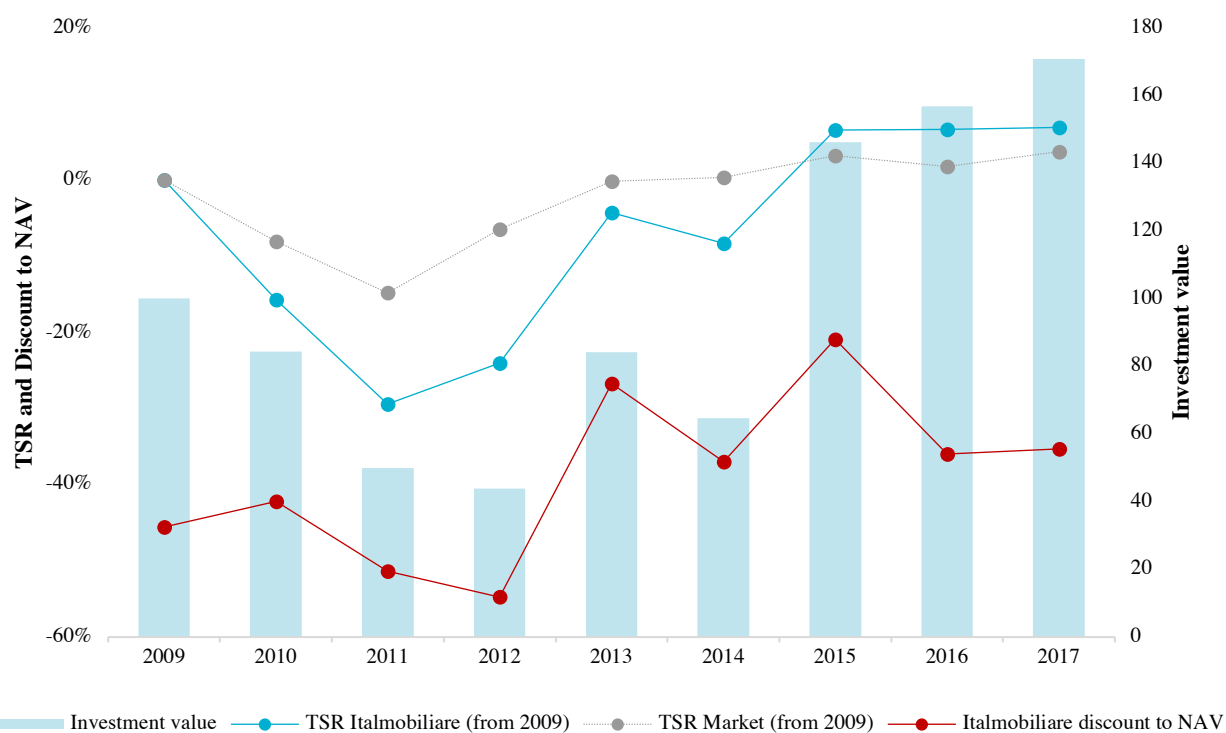
(market cap almost doubled compared to the previous year), then reflected in a halving of the discount to NAV applied by the market to Italmobiliare's shares (from 55% in 2012 to 27% in 2013).

In 2015 we can observe a further squeeze in the discount to NAV, which reached the level of 21%. This can be mainly related to the exceptional market performance of Italcementi during the year (+107% in share price YoY), because of the positive market expectations about its sale to HeidelbergCement announced in mid-2015. The announcement of this operation, which can be considered the starting point for the transformation process in Italmobiliare's asset portfolio, has been rewarded by the market with a strong re-rating of Italmobiliare (market cap more than doubled between 2014 and 2015) and a reduction in the applied discount to NAV.

In 2016 and 2017, Italmobiliare's discount to NAV widened from the extraordinary low level reached in 2015, reverting to its historical mean. However, the active portfolio management approach adopted and the operations on the capital structure performed during these years are fundamental in order to be rewarded by the market with a reduction in the applied discount to NAV. In particular, the saving share conversion into ordinary shares performed in 2016 allowed to increase the liquidity of the shares, simplify the company's capital structure and thus enhance the minority shareholders' perception of a greater transparency from the company. Moreover, the execution of ordinary stocks' split in 2017 allowed to facilitate the circulation of the shares, boosting the trading volumes among the investors and generating a potential increase in share liquidity. As a result, this increased liquidity - combined with the activism in managing the assets through disposals and acquisitions aimed to balance and diversify the portfolio looking at a long-term value creation - will potentially be reflected in an Italmobiliare re-rating as well as in a reduction of the discount to NAV applied by the market.

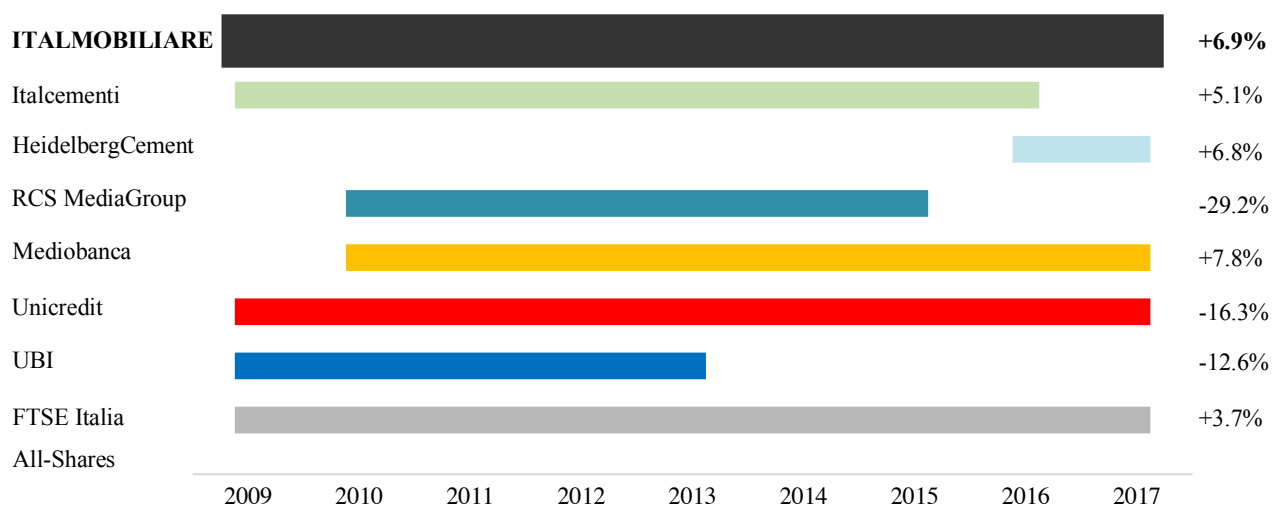
Total Shareholder Return

Total Shareholder Return can be analysed in connection with the performance of the underlying assets (listed and not listed) in the holding company's portfolio and the discount to NAV dynamic over the years.



Source: Bloomberg (TSR) and personal re-elaboration

Annualized TSR



Source: Bloomberg

Over the period 2009-2017, Italmobiliare delivered an annualized TSR of 6.9%, compared to 3.7% returned for the FTSE Italia All-Shares Index.

Assuming an investment value of 100 in 2009, Italmobiliare has delivered negative returns to its shareholders until 2014, as the initial investment value decreased and almost halved in 2011 and 2012. Starting from 2015, the investment value recovered the losses of the previous years and Italmobiliare started to deliver positive returns to its shareholders, stabilized to around 6%-7% if we consider an investment holding period of six to eight years (from 2009-2015 to 2009-2017).

The considerably negative performance by Italmobiliare until 2014 can be mainly associated with the bad performance of its underlying assets, largely belonging to the financial and banking sector and to the real estate business, which particularly suffered the difficult macroeconomic dynamics of those years. Italmobiliare's shares amplified the effects of this negative market momentum and delivered a considerably lower TSR compared to the one delivered by the FTSE Italia All-Shares Index.

In 2015, Italmobiliare registered an inversion of trend: the investment value increased by almost 50% compared to the initial one, recovering all the accumulated losses, and shareholders realized a return of about 6.5% considering the period 2009-2015. This amount of TSR delivered can be totally attributed to the reduction in the discount to NAV registered during the same reference period, triggered by the adoption of a more active approach in portfolio management. This activism, focused on capital structure simplification and portfolio optimization and diversification, continued to be applied also in 2016 and 2017. This change in corporate strategy has been positively valued by the market and directly traduced in a positive return for Italmobiliare's shareholders, equal to 6.9% considering the whole 2009-2017 period, of which roughly 2% can be attributed to the reduction in the discount to NAV applied by the market. Considering also the performance of the underlying assets, a positive contribution to Italmobiliare's 2009-2017 TSR has come from Italcementi (annualized TSR equal to 5.0% from 2009 until its sale in October 2016 - positive only from mid-2015), which has always represented almost half of the total value of the portfolio, HeidelbergCement (annualized TSR equal to 6.8% since its entrance in Italmobiliare's portfolio in October 2016, after Italcementi sale, until 2017) and Mediobanca (annualized TSR equal to 7.8% in the period 2010-2017). For the purpose of this analysis, referring to the period during which the assets are part of the portfolio, only the listed assets have been taken into consideration, although, however, the unlisted assets, e.g. the investments in private equity funds performed starting from 2016, also have exerted an influence on the return being delivered.

Combining all these elements together, it can be derived that Italmobiliare's positive annualized TSR delivered in the period 2009-2017 has been determined by the change in the approach used for managing the investments in its portfolio. Becoming a proactive owner of its business, the underlying assets in the portfolio registered a positive performance and the market rewarded this change reducing the applied discount to NAV. This allowed to produce almost two times the return of the FTSE Italia All-Shares Index over the period 2009-2017.

2.4 CIR

CIR is one of the Italian leading holding companies, that holds and manages a balanced portfolio of assets, with strong positions in their respective businesses, adopting a long-term investment strategy, with focus on controlling stakes.

It was founded in 1976 when Carlo De Benedetti acquired control of the tanning company CIR and transformed it into a holding company. CIR shares are listed on MTA (Mercato Telematico Azionario managed and organized by Borsa Italiana S.p.A.) since 1973. CIR is part of the FTSE Italia Mid Cap index.

CIR is controlled by the De Benedetti family through the company COFIDE-Gruppo De Benedetti, a listed company with the mere role of parent company and with no relevant additional portfolio diversification, which holds 45.80% of its share capital (*see fig. 5*). Being a historical family company, several members of the De Benedetti family directly participate in the management of the company and have a seat in the Board of Directors, as Chairman (Rodolfo De Benedetti) and as Non-Executive Directors (six of the nine Non-Executive Directors are instead qualified as independent under Italian Corporate Governance Code).

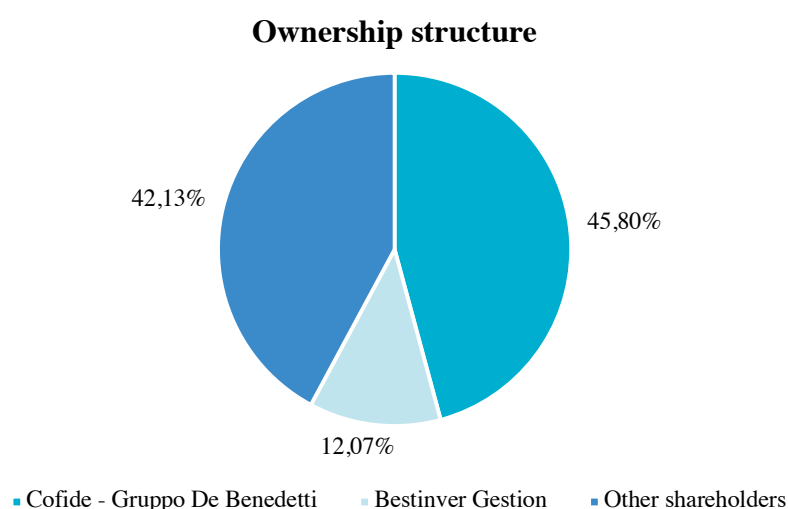


Fig. 5 – Ownership structure. *Source:* Company's annual report (2017)

Current asset portfolio

CIR is a holding company with a portfolio of investments in diversified sectors, in both publicly listed and unlisted companies. CIR investment strategy stands out for the balanced nature of its long-term oriented investment portfolio in companies with a leading position in their respective businesses. The portfolio is currently focused on three major businesses (healthcare, media and automotive components), in addition to non-core investments in Private equity sector and NPLs. CIR plays an active role in governance and in strategic decision making of portfolio companies, with a constant focus on growth opportunities and non-core investments rationalization and with a limited use of financial leverage.

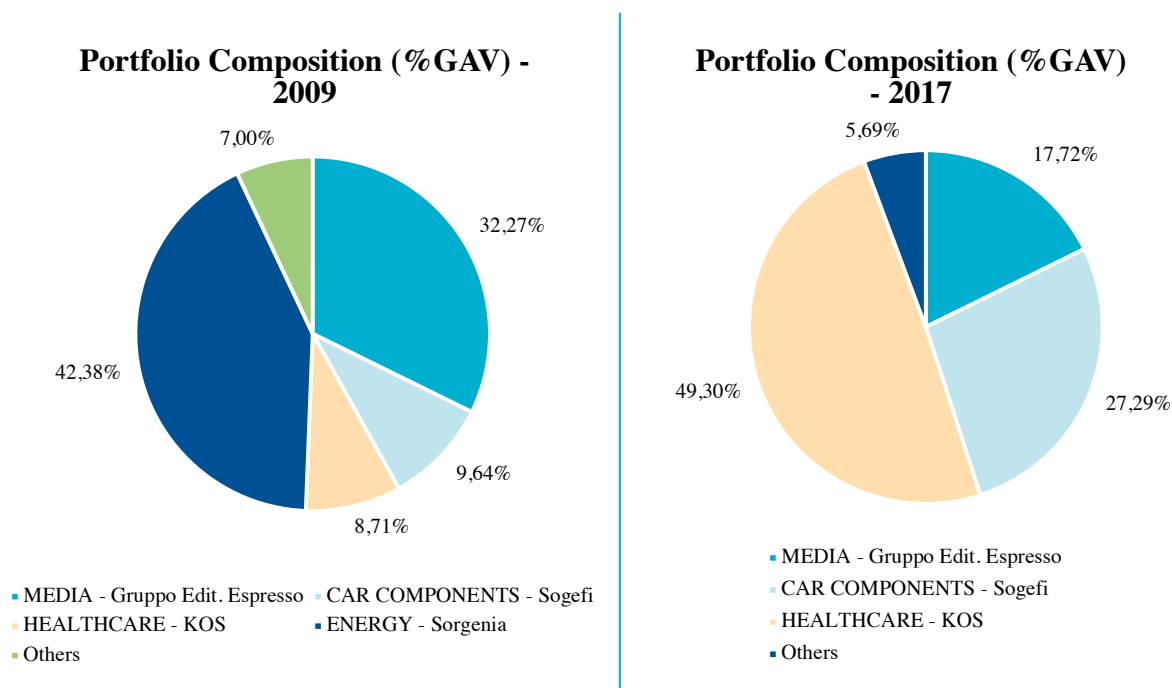
As of 31st December 2017, the main investments in CIR's portfolio are the following:

- *Gedi Gruppo Editoriale* (45.7% stake) is an Italian media group, with presence in dailies, periodicals, radio, internet and advertising. It is the Italian leading publisher of newspapers and online news, as well as the number two private player in the radio sector. It is born in 2017 with the merger of ITEDI group (publisher of newspapers) into the Espresso group, historical asset of CIR's portfolio. It is listed on the MTA managed by Borsa Italiana;
- *Sogefi* (56.7% stake) is a global leader in the automotive components sector, specialized in suspensions, filtration, air and cooling. It has a global presence in 23 countries with 41 production facilities. It is listed on the MTA managed by Borsa Italiana;
- *KOS* (59.5% stake), founded in 2002 by CIR, is one of the main Italian operators in private healthcare sector, operating in hospital management, long-term care and diagnostics and oncology treatments. Starting from 2012, it is developing its presence also in UK and in India;
- *Non-core investments*: portfolio of miscellaneous non-core investments, especially in private equity sector and NPLs portfolio.

2.4.1 Performance analysis

NAV evolution

Considering the period 2009-2017, CIR has always been focused on value creation by leveraging its strong holding system financial structure and its balanced portfolio of assets, characterized by attention to a limited number of selected businesses, over which CIR plays an active role in governance and in strategic decision making.

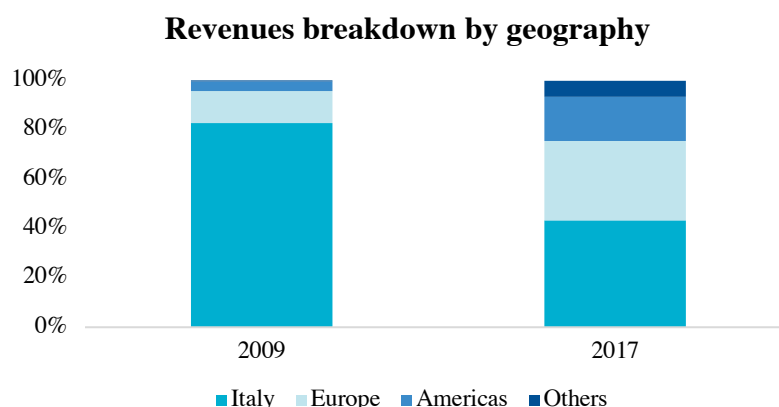


Source: Personal re-elaboration of analysts' reports data (2009 and 2017)

Making a comparison between the portfolio compositions at the beginning and at the end of the period considered in this analysis, we can observe a persistent focus on selected businesses. However, over these years, the weight of each sector on the GAV has profoundly changed: while in 2009 the portfolio was heavily concentrated on the energy sector with Sorgenia (42.38% of GAV), in 2017 it is no longer exposed to the power generation market, being concentrated instead on the healthcare sector with KOS (49.30% of GAV) and on car components sector with Sogefi (27.29% of GAV). In this way, CIR has been able to reduce its dependence on cyclical businesses, giving more weight to the healthcare sector, favoured by demographic trends and characterized by very low cyclical exposure.

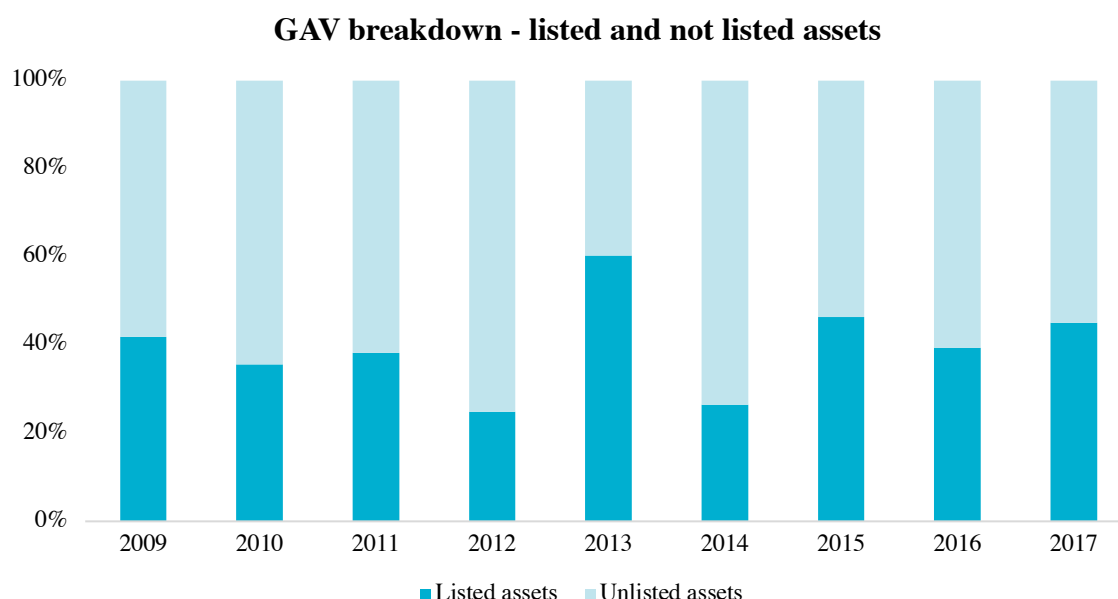
An important weakness of CIR's portfolio that needs to be considered is the limited geographical diversification, being strongly dependent on the Italian market. However, over the years, the exposure to Italy has been halved, being revenues more international with Italy

representing about 43% in 2017, compared to about 83% in 2009. This geographic diversification has been favoured by the sale of Sorgenia, which was operative only on the domestic market, and the increasing contribution coming from Sogefi, characterized by an international worldwide presence.



Source: Personal re-elaboration of Company's Annual Reports data

Another important characteristic to consider is the GAV composition in terms of proportion between listed and unlisted assets.



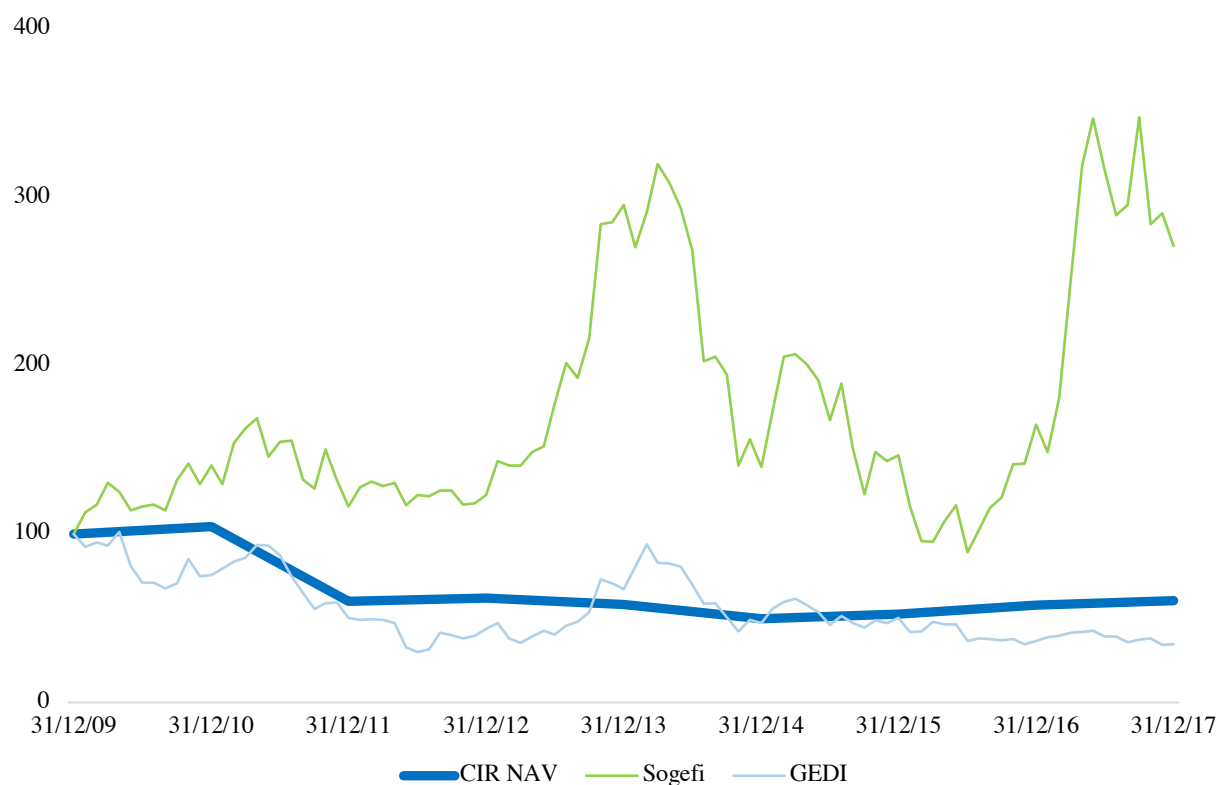
Source: Personal re-elaboration of analysts' reports data

CIR's portfolio has always been composed of a significant share of unlisted assets (always more than half of GAV), represented by the historical stakes in Sorgenia and in KOS. The only exception in this composition is in 2013, due to the strong market performance of the listed assets in the portfolio (L'Espresso and Sogefi) and the concomitant bad performance of Sorgenia, which initiated a debt restructuring process.

During the period 2009-2017, CIR's NAV registered a decrease with about a -6% CAGR.

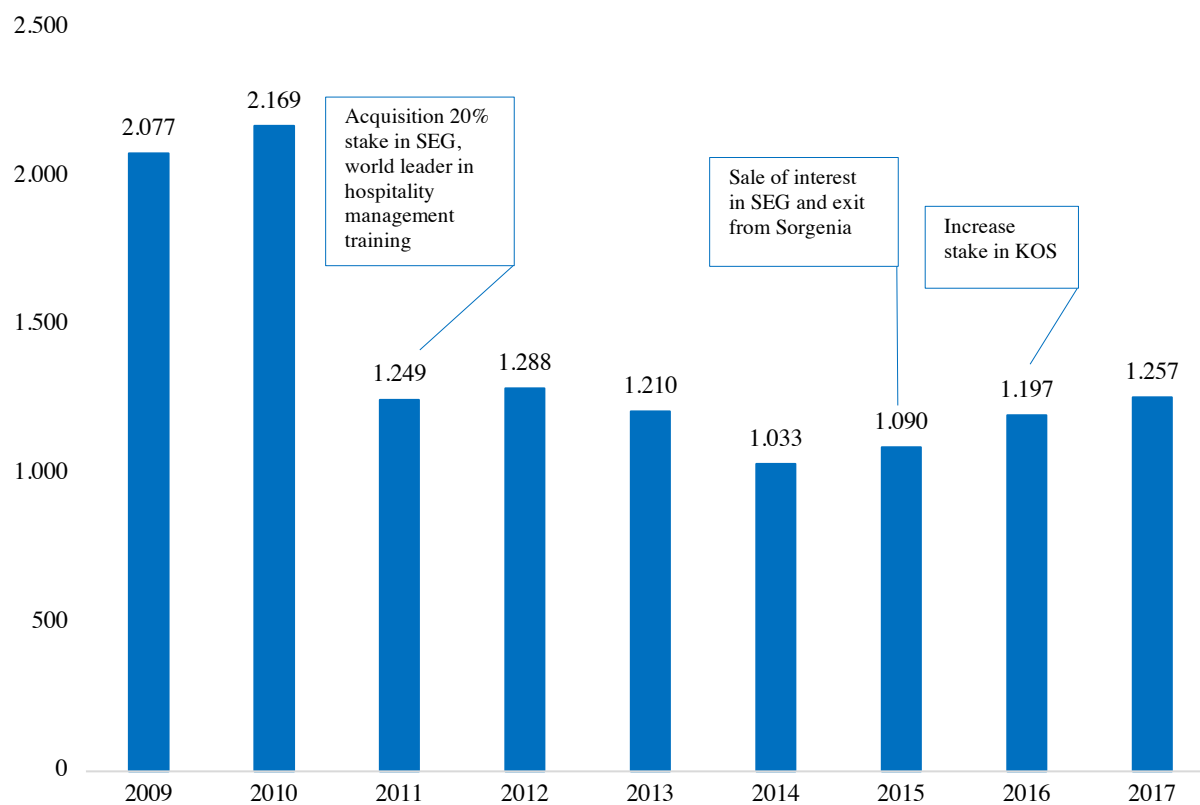
In analysing this dynamic, the presence of a potential impact deriving from the subjectivity and the different approaches used in the valuation of non-listed assets needs to be considered. In particular, in the analysts' reports used in this analysis, the non-listed companies are valued, when determinable, based on specific experts' valuations (market multiples or DCF method); when this is not possible, non-listed companies are valued based on the book value of equity, as reported in the company's annual reports, considering the stake attributable to the parent.

CIR NAV and Market Performance of main underlying listed assets



Source: Bloomberg, annual reports and personal re-elaboration. NAV taken from analysts' reports.

CIR NAV (EURm, year-end) and main corporate actions



Source: Analysts' reports.

We start now analysing NAV evolution. CIR has been characterized, until 2015, by an almost unchanged investment strategy, without a particularly active portfolio management approach. Over the period 2009-2015, the portfolio has always been concentrated in the energy sector with the core investment being Sorgenia, in addition to the relevant exposure to the media sector (stake in L'Espresso), the car components sector (stake in Sogefi), the healthcare sector (stake in KOS) and miscellaneous interests in education, private equity, venture capital and NPLs.

During the period **2010-2014** we can observe a reduction of NAV and this negative performance can be mostly attributed to external macroeconomic dynamics and financial market turmoil. The strong European economic recession of these years has strongly hit in particular L'Espresso and Sorgenia, which suffered from both cyclical and structural issues.

The media sector, in which CIR operated with L'Espresso, has been characterized in those years by a crisis in advertising revenues and a decline in the circulation of newspapers, not sufficiently compensated by the growing initiatives undertaken in the digital field. These cyclical and structural challenges had an adverse impact on L'Espresso operations, and this directly traduced in a bad market performance (share price about -38% over the whole period), thus negatively contributing to CIR's NAV.

In addition, over these years, Sorgenia has been characterized by a very negative profitability scenario. This has been mainly triggered by the overcapacity in the Italian power generation market, caused by weak demand and the huge increase of renewables, which has caused trouble in the Italian thermoelectric generation market. For the other utilities, this impact has been mitigated by their business diversification, while for Sorgenia's power plants the overcapacity hit its main source of operating performance. Given this drastic change in market scenario, Sorgenia faced the impossibility to comply with the repayment plans for debts assumed in the previous years for the building of four new CCGTs. In 2013, Sorgenia thus decided to activate a debt restructuring plan and, as a consequence, CIR decided to write-off the entire interest in Sorgenia. This has been reflected in a cut to zero of Sorgenia's contribution to CIR's NAV, after having being for years the main asset in the portfolio. This negative contribution to CIR's NAV has been partially offset in 2013 by the strong market performance of CIR's underlying listed assets (L'Espresso share price +54.5% YoY and Sogefi share price +140.1% YoY).

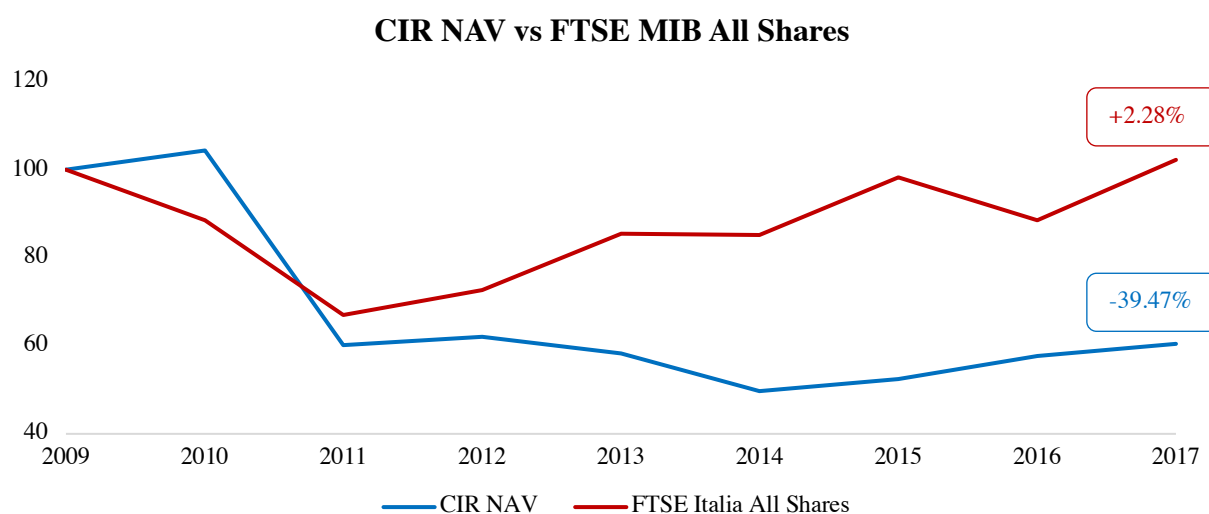
In **2015**, we can observe a slight increase in NAV (+5.6% YoY). This can be linked to the positive market performance of the listed assets (L'Espresso share price +6.2% YoY and Sogefi share price +4.8% YoY) and to the completed exit from Sorgenia, with the transfer of the entire

interest to the lending banks. Given Sorgenia's bad performance over the previous year, the divestment can be considered a starting point for future value creation. In 2015, CIR also decided to sale its interest in SEG (Swiss Education Group), a world leader in hospitality management training, in which CIR invested in 2011. This divestment aimed to focus the management attention on the three main businesses in the portfolio (healthcare, car components and media), rationalizing the non-core investments.

In **2016-2017**, CIR's NAV continued to increase (+9.8% YoY in 2016 and +5.0% YoY in 2017). This dynamic can be explained, first of all, by the positive contribution coming from KOS, the company operating in the private healthcare sector, in which CIR has also increased its stake in 2016 (KOS represented almost 50% of GAV in 2017). Thanks to this operation, in the last two years, the asset portfolio has become more balanced and less exposed to cyclical sectors and this has been reflected in an increase in its value. The growing dynamic in NAV over these years has also been sustained by the considerably positive market performance of Sogefi (share price almost +85% in the last two years).

Summing up, during the analysed period, CIR's NAV registered a decrease (-6% CAGR). However, if we take into consideration the years 2014-2017 as a reference period, CIR's NAV has registered an increase by about +7% CAGR. This positive evolution can be considered to be mainly triggered by management activism started in 2015, observable in the completion of the exit from the historical asset Sorgenia, which was a cause of value destruction during the recent years because of cyclical and structural challenges in the energy production sector, in the rationalization of the non-core investments as well as in the focus on selected businesses, reflected in the decision to increase the investment in the healthcare sector, which is anticyclical and has high growth potential and a positive operating performance.

CIR performance vs. market



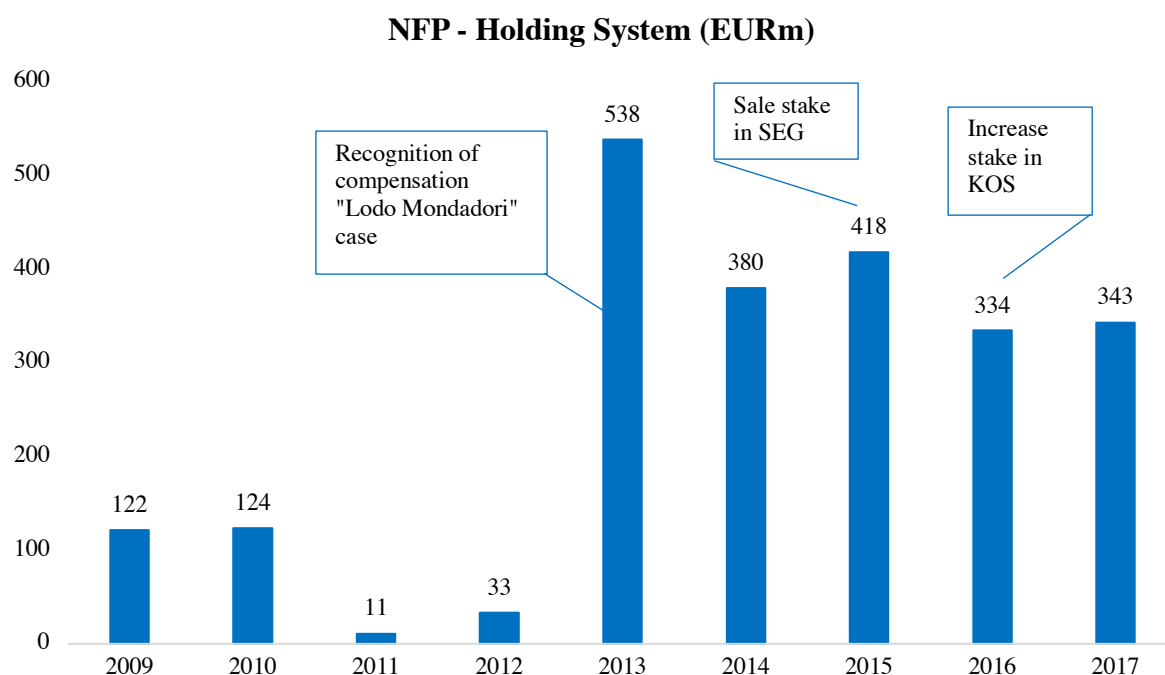
Source: Bloomberg, analysts' reports and personal re-elaboration.

If we look at the CIR's NAV evolution, during the period 2009-2017, NAV decreased by 39.47%, underperforming the FTSE Italia All-Shares Index, which increased by 2.28% in the same period. However, if we take into consideration, as reference period, the years 2014-2017, CIR's NAV increased by about 22%, outperforming the FTSE Italia All-Shares Index by almost 2 p.p.. This positive evolution and value creation over the last years can be considered to be mainly triggered by the increased management activism adopted, which has been expressed in the exit from the energy production sector and the decision of concentrating the portfolio on specific assets with leading positions in their respective businesses through a progressive disposal of non-core investments.

Financial structure

The corporate actions undertaken during the years are directly related to the financial strategy and structure of the company.

In the analysis of the financial structure policy, the Net Financial Position of the Holding System – i.e. CIR S.p.A. and the non-industrial subsidiaries (e.g. CIR Investimenti S.p.A. and CIR International S.A. in 2017) – has been taken into consideration, as reported in the company annual reports.

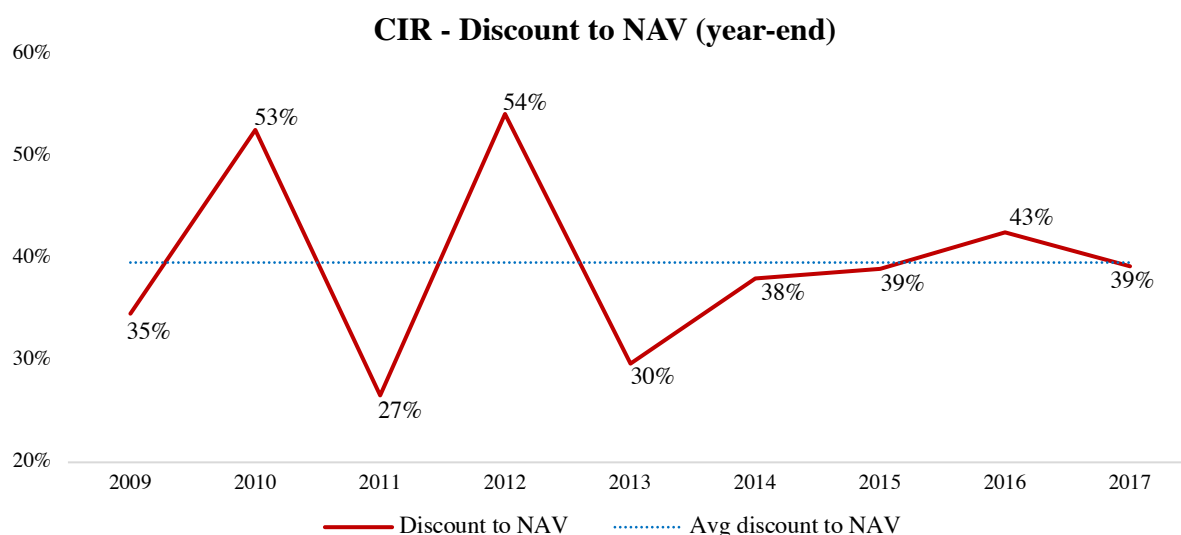


Source: annual reports. NFP calculated as Cash and cash equivalents – Gross financial debt.

CIR's history has been always characterized by a strongly conservative capital structure and a prudent management approach regarding the investment policy, with limited use of leverage and a significant amount of cash reserves, reflected in a loan-to-value ratio always at negative levels calculated with reference to the Holding System. In 2013, we can observe a substantial increase in liquidity compared to the previous years, due to the final ruling by the Supreme Court in the "Lodo Mondadori" case definitely condemning Fininvest to pay a net compensation in favour of CIR of 491.3 €million. In 2015, CIR registered a cash-in from the sale of its stake in SEG and these resources have been used in the next year for the increase of the stake in KOS. This is the expression of CIR's strategy of focus on selected assets with leading positions in their businesses, through progressive monetisation of the non-core investments in the portfolio.

Discount to NAV

After having investigated, in the previous section, the NAV evolution and the related main determinants, we continue with the analysis by considering how the market has changed its valuation about CIR during the reference period. Thus, by comparing in each year the market capitalization to the NAV, we can study the discount to NAV dynamic and try to understand its key factors.



Source: personal calculation

CIR is characterized by the persistence of a discount between its Market Value and NAV.

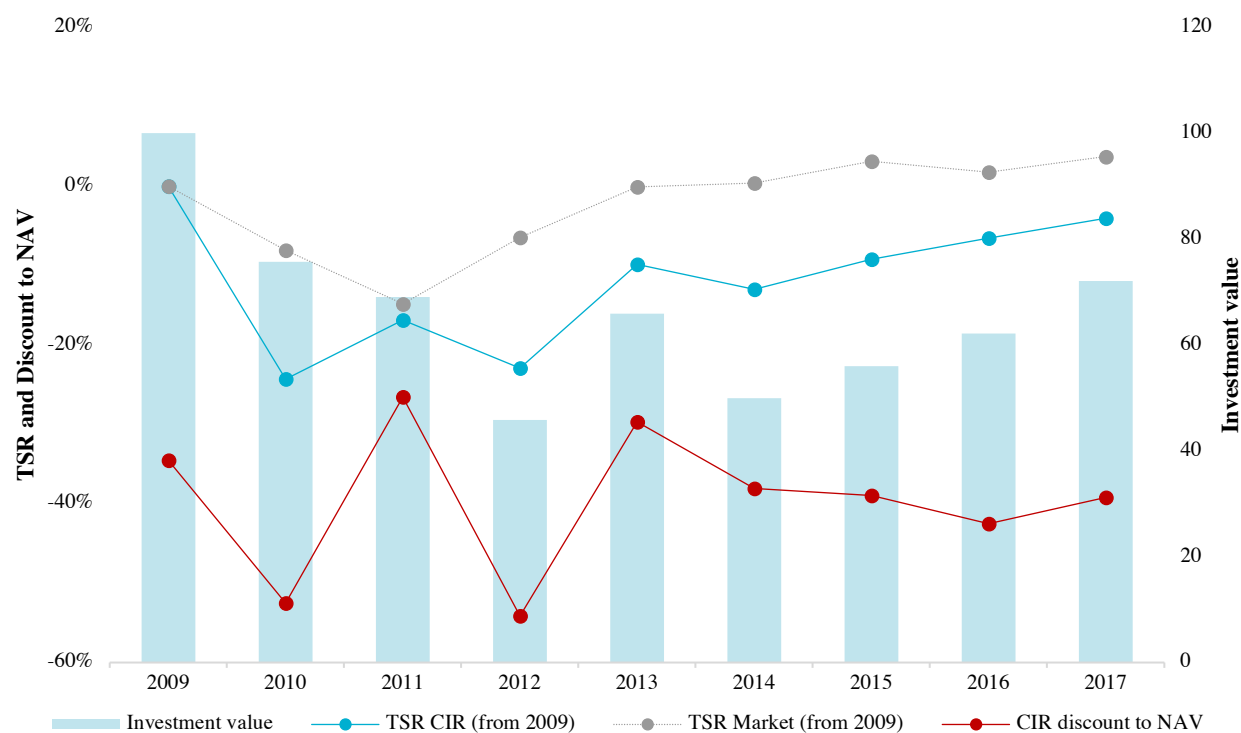
During the period 2009-2012, we can observe high volatility in the discount to NAV applied by the market. Starting from a level of 35% in 2009, the discount to NAV reached levels of more than 50% in 2010 and 2012. This dynamic can be mainly attributed to the difficult macroeconomic context in those years, which strongly impacted on the performance of the underlying assets, especially Sorgenia and L'Espresso, and thus also on CIR market performance itself (CIR share price registered almost -56% during the period 2009-2012). An exception is represented by the considerably low discount in 2011. This can be maybe explained by the fact the market did not fully incorporated in CIR's share price the reduction of Sorgenia's value and of the listed assets into CIR's NAV: in 2011, indeed, CIR's NAV reduced by about 42% compared to the previous year, while CIR's share price only decreased by almost 10% YoY.

In 2013, the signs of recovery in the world economic activity triggered a strong re-rating of CIR's listed assets, with L'Espresso registering a +54.5% YoY and Sogefi a +140.1% YoY. This positive dynamic has been directly traduced in a strong CIR's market performance (market cap registered almost +45% compared to the previous year), then reflected in a substantial squeeze of the discount to NAV applied by the market to CIR's shares (from 54% in 2012 to 30% in 2013).

Starting from 2014 until 2017, CIR's discount to NAV widened from the low level reached in 2013, reverting to its historical mean. However, the actions undertaken in recent years to focus the portfolio only on selected businesses, combined with the positive market performance of Sogefi, will potentially lead to a progressive recognition by the market of CIR's ability to create value, thus triggering a reduction of the applied discount to NAV.

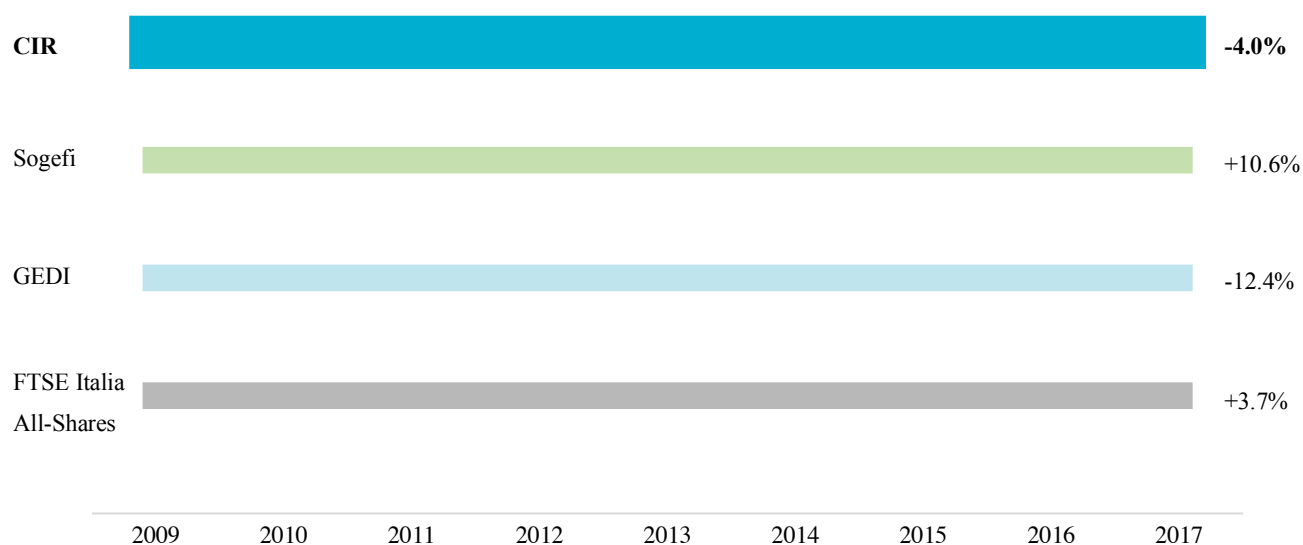
Total Shareholder Return

Total Shareholder Return can be analysed in connection with the performance of the underlying assets (listed and not listed) in the holding company's portfolio and the discount to NAV dynamic over the years.



Source: Bloomberg (TSR) and personal re-elaboration

Annualized TSR



Source: Bloomberg

Over the period 2009-2017, CIR delivered an annualized TSR of -4.0%, compared to 3.7% returned for the FTSE Italia All-Shares Index.

Assuming an investment value of 100 in 2009, CIR has delivered negative returns to its shareholders during the period of analysis, as the initial investment value decreased and almost halved in 2012 and 2014, after a partial recover in 2013. This considerably negative performance by CIR can be mainly associated with the bad performance of its underlying assets, which particularly suffered cyclical and structural challenges during those years. In particular, L'Espresso, become GEDI in 2017 after the merger with ITEDI, delivered an annualized return of -12.4% during the period 2009-2017. Moreover, it needs to be mentioned that, for the purpose of this analysis, only the listed assets have been taken into consideration, although, however, the unlisted asset Sorgenia has surely also exerted a strong influence on the negative return being delivered.

However, it needs to be noticed that, starting from 2015, CIR shareholders have seen a progressive increase in the value of their initial investment, even if the accumulated losses reported from 2009 have not yet been covered. If we considered, as reference period, the years 2014-2017 and an investment value of 100 in 2014, we could find out that CIR has delivered a positive annualized TSR of 13%. This means that the exit from Sorgenia in 2015 and the management decision to create a balanced portfolio with focus only on selected businesses, with an increasing interest in the healthcare sector (KOS – non-listed asset) and through a progressive monetisation of the non-core assets in the portfolio, have created value for CIR's shareholders. Therefore, we can consider the actions undertaken in recent years, combined with the positive performance of Sogefi - which delivered an annualized TSR of 10.6% in the period 2009-2017 - as the main determinants in order to deliver a positive return to the shareholders. The positive performance of the assets in the portfolio may also traduce in a reward from the market with a reduction of the applied discount to NAV.

In explaining the annualized TSR equal to -4.0% delivered in the period 2009-2017, the most important influence comes from the performance of the underlying listed and not listed assets over the same period and the discount to NAV dynamics negatively contribute for about a 1%.

2.5 IMMSI

Immsi is an Italian holding company, which manages a portfolio of over forty companies, operating in diversified sectors.

It was founded in 2000 with the spin-off of the real estate branch of Sirti S.p.A., part of the Telecom Italia Group. Immsi shares are listed on MTA (Mercato Telematico Azionario managed and organized by Borsa Italiana S.p.A.) since 2000. Immsi is part of the FTSE Italia Small Cap Index.

Immsi is controlled by the Colaninno family, through the wholly owned company Omniaholding S.p.A. and its subsidiary Omniainvest S.p.A., which together count for 59.83% of Immsi share capital (*see fig. 6*). Being a family company, several members of the Colaninno family directly participate in the management of the company and have a seat in the Board of Directors, as Chairman (Roberto Colaninno), CEO (Michele Colaninno) and as Non-Executive Directors (four of the seven Non-Executive Directors are instead qualified as independent under Italian Corporate Governance Code), as well as important governance positions in the subsidiaries.

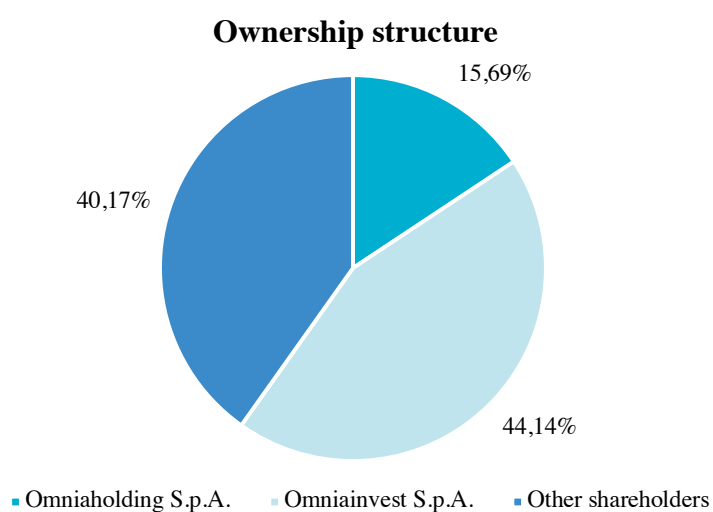


Fig.6 – Ownership structure. *Source:* Company's annual report (2017)

Current asset portfolio

Immsi is a holding company with a portfolio of investments in diversified sectors, in both publicly listed and unlisted companies. Immsi investment strategy is focused on long-term value creation for the shareholders, also by re-launching companies with important growth prospects, with the aim of strengthening the market positions in their respective business sectors. The portfolio is currently focused on three major businesses (real estate, industrial and naval), in addition to non-core investments (e.g. in Alitalia and Unicredit).

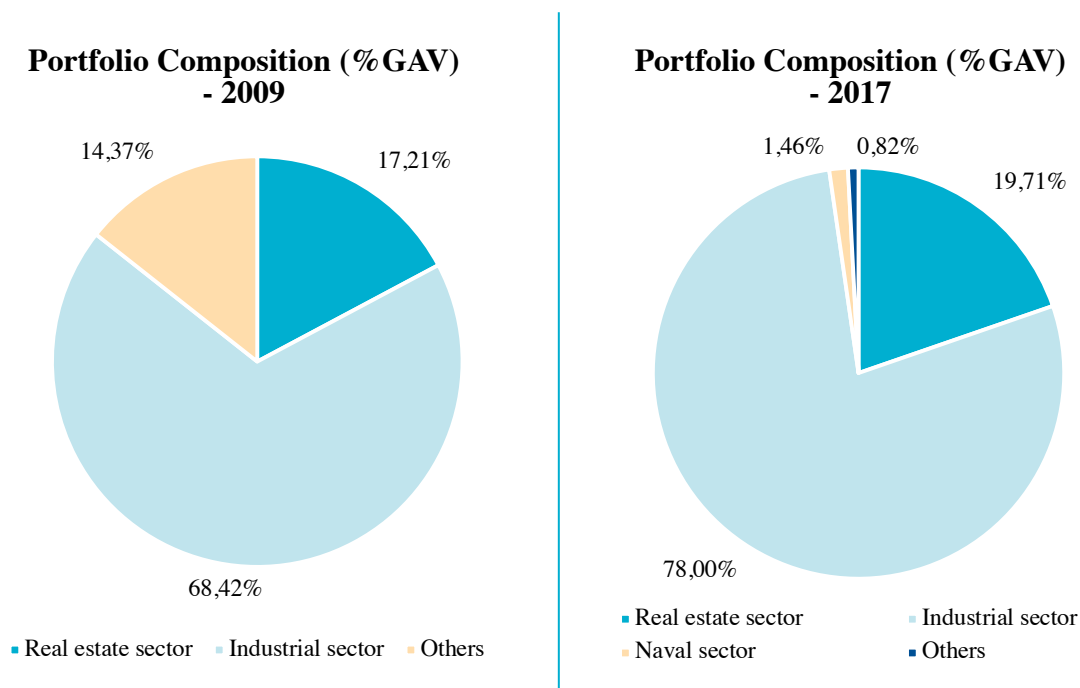
As of 31st December 2017, the main investments in Immsi's portfolio are the following:

- *Piaggio Group* (50.1% stake) is Europe's largest scooter and motorcycle manufacturer and one of the world leaders in its sector. Today, it operates in two-wheelers, light commercial vehicles and robotic sectors, with industrial sites in Italy, India and Vietnam and with a brand portfolio including some of the industry's most famous names;
- *Real estate sector* – tourist and holiday resort – through the companies Pietra (77.8% stake), Apuliae (85.7% stake) and Is Molas (67.3% stake, owned through 72.6% stake in ISM Investimenti). The most significant investment in the sector is the Is Molas luxury resort complex in Sardinia, with a project involving the expansion of hotel services and the construction of new buildings;
- *Naval sector* through Intermarine (72.5% stake, owned through 72.5% stake in RCN Finanziaria), a shipyard specialized in designing and building ships in steel, aluminium and composites, for both civil and defence applications. It is a worldwide leader in minehunters production for Military Marines.

2.5.1 Performance analysis

NAV evolution

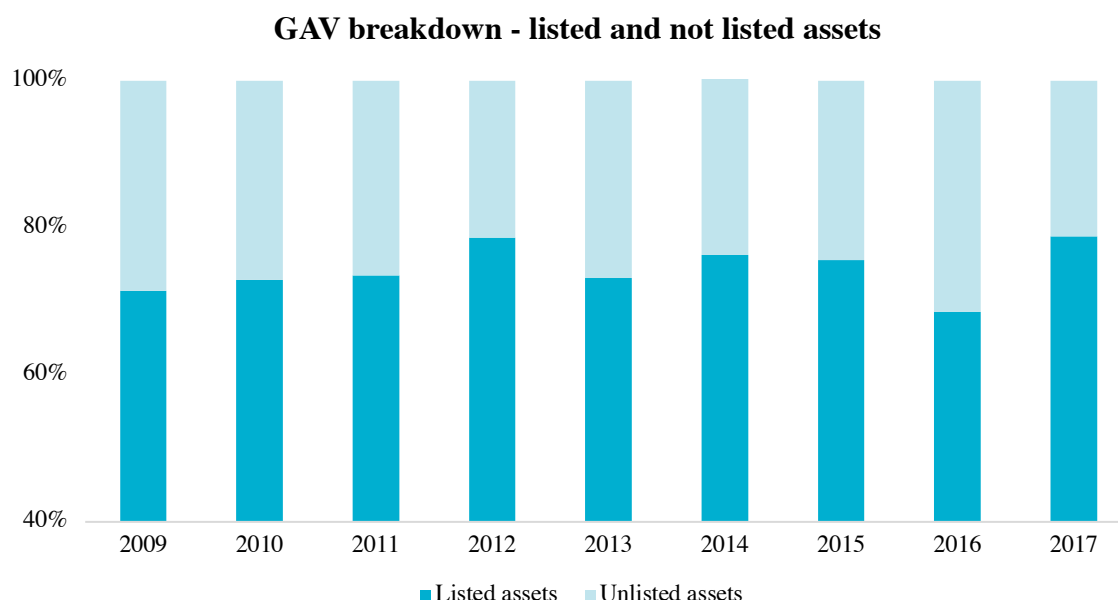
Considering the period 2009-2017, Immsi has always been focused on investments in a limited number of businesses, in diversified sectors.



Source: Personal re-elaboration of analysts' report data (2009) and personal calculations (2017)

Making a comparison between the portfolio compositions at the beginning and at the end of the period considered in this analysis, we can observe a persistent focus on the same selected businesses, characterized by high cyclical exposure. The portfolio has always been heavily concentrated on Piaggio group, represented as "Industrial sector" (68.42% of GAV in 2009 – 78.00% of GAV in 2017). Moreover, an important portion of the portfolio has always been represented by the investments in the real estate sector (17.21% of GAV in 2009 – 19.71% of GAV in 2017). The investments in the naval sector (1.46% of GAV in 2017) were also in place in 2009 but, considering the analysts' report data as reference, they have been valued at zero, given the continuous not profitability over the years and the need of a restructuring process. The weight of the non-core investments, represented as "Others", has diminished over the period, mainly due to the reduction of the investment in Unicredit and the full write-down of the investment in Alitalia.

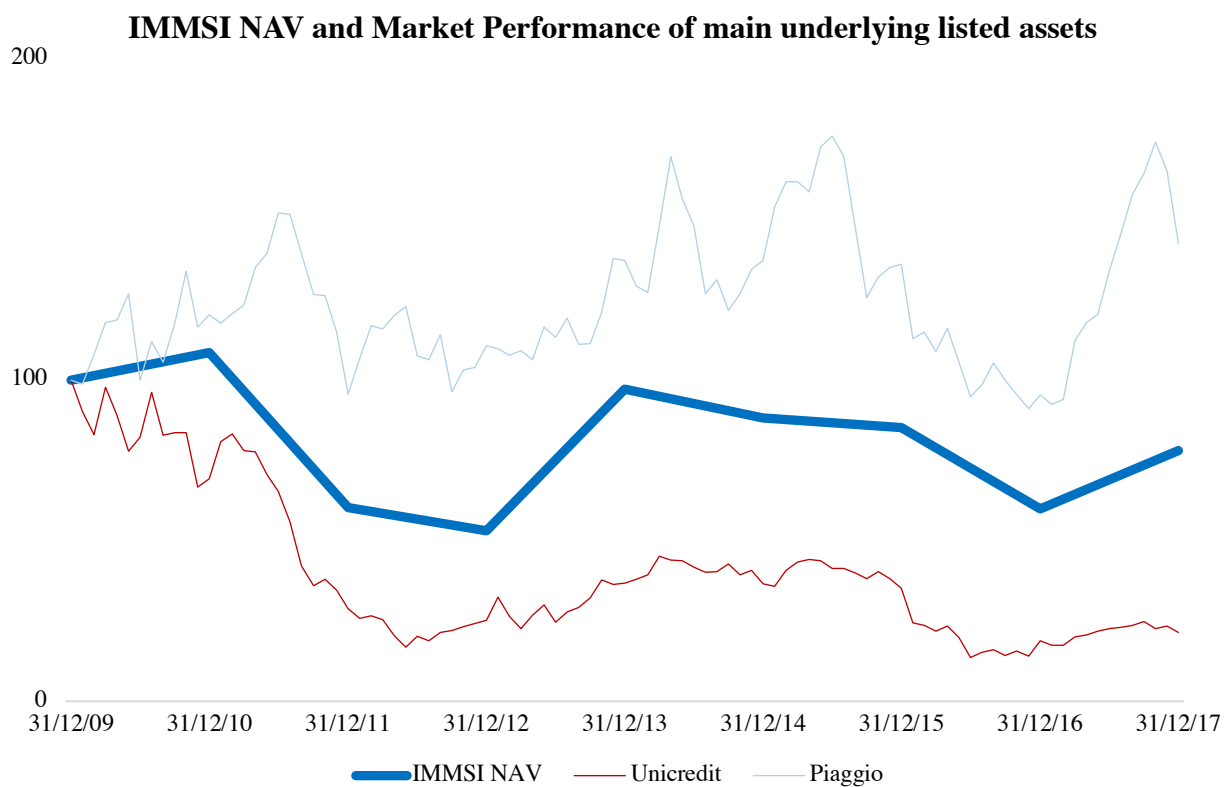
Another important characteristic to consider is the GAV composition in terms of proportion between listed and unlisted assets. Immsi's portfolio has always been composed of a significant share of listed assets (always more than 60% of GAV), almost exclusively represented by the stake in the Piaggio Group.



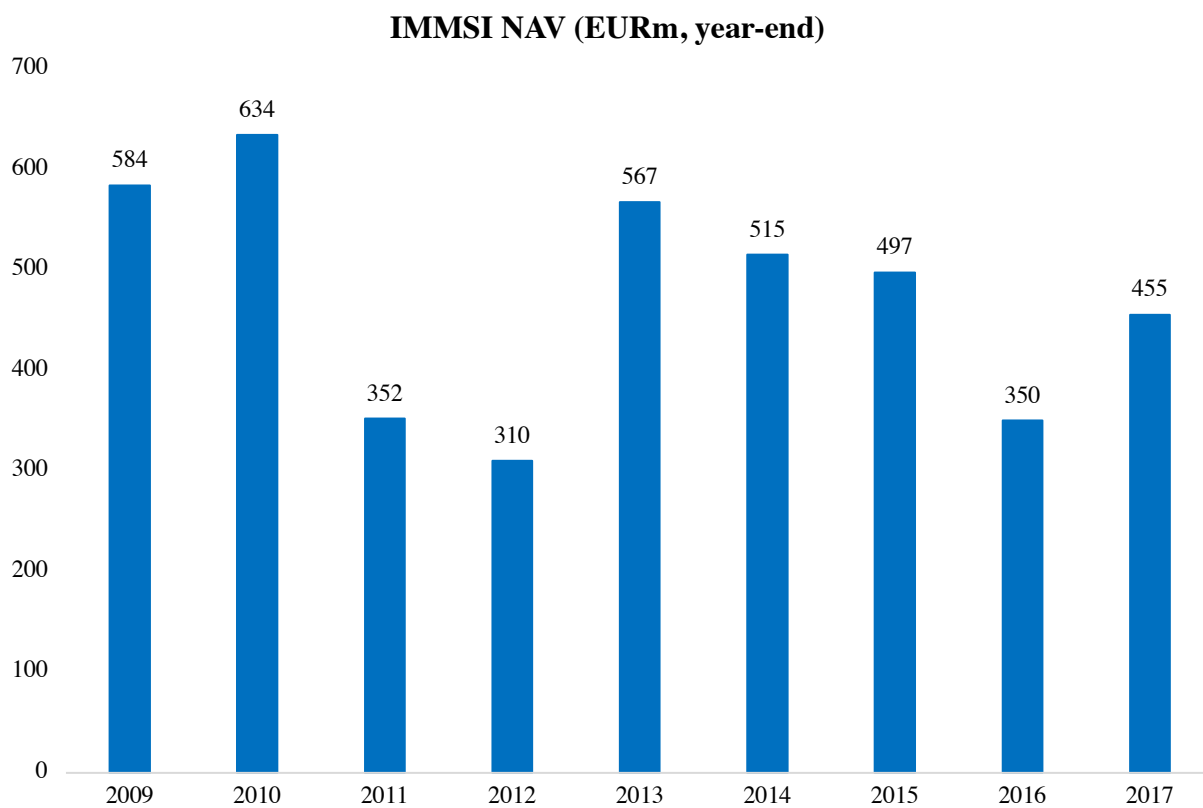
Source: Personal re-elaboration of analysts' reports data

During the period 2009-2017, Immsi's NAV registered a decrease with roughly a -3% CAGR.

In analysing this dynamic, the presence of a potential impact deriving from the subjectivity and the different approaches used in the valuation of non-listed assets needs to be considered. In particular, in the analysts' reports and in the personal calculations used in this analysis, the non-listed companies are valued, when determinable or available in the company's annual reports, based on specific experts' valuations (e.g. through multiples or DCF method); when this is not possible, non-listed companies are valued based on the book value of equity, as reported in the company's annual reports, considering the stake attributable to the parent.



Source: Bloomberg, NAV 2009-2012 from analysts' reports, NAV 2013-2017 from personal calculations.



Source: NAV 2009-2012 from analysts' reports, NAV 2013-2017 from personal calculations.

We start now analysing NAV evolution. Immsi has been characterized by an almost unchanged investment strategy, without a particularly active portfolio management approach. The portfolio has always been concentrated in the industrial sector, with the core investment being Piaggio group, in addition to the relevant exposure to the real estate sector, the naval sector and miscellaneous non-core interests, such in Unicredit and Alitalia.

During the period **2010-2012** we can observe a reduction of NAV, which was halved during the period, and this negative performance can be mostly attributed to external macroeconomic dynamics and financial market turmoil that have strongly impacted all the businesses in which Immsi operated.

Starting from the *industrial sector*, which always represented almost 70% of the total value of Immsi's portfolio, Piaggio operated in a particularly complex market context and competitive scenario, at least in Europe and in the US. In spite of this, Piaggio has been able to maintain a leadership position. The decreasing performance realized over these years in these markets, however, has been partially compensated by the strong performance realized in the Asian region, with both the two-wheelers and the light commercial vehicles businesses.

Considering the *naval sector*, in which Immsi operated through Rodriquez group (controlled through RCN Finanziaria), it constantly reported losses, due to insufficient marginality to absorb the direct costs of production and those of fixed structures. This unprofitability is connected to the underestimation of some production costs, delays in progress on the orders and lack of new significant sales contracts in the yacht business, because of the economic recession. In order to face this critical situation, the companies belonging to the Rodriquez group undertook, over these years, an extensive restructuring process, to be finalized in 2014, in order to simplify and streamline the corporate chain and pursue operating synergies, thus reducing the overhead management costs. The merger by incorporation of Rodriquez Cantieri Navali into the 100% controlled company Intermarine performed in 2012 represented an important step in this restructuring process.

The negative momentum in the European economic scenario has also strongly impacted the *real estate sector*, to which Immsi was exposed through investments in tourist and holiday resorts.

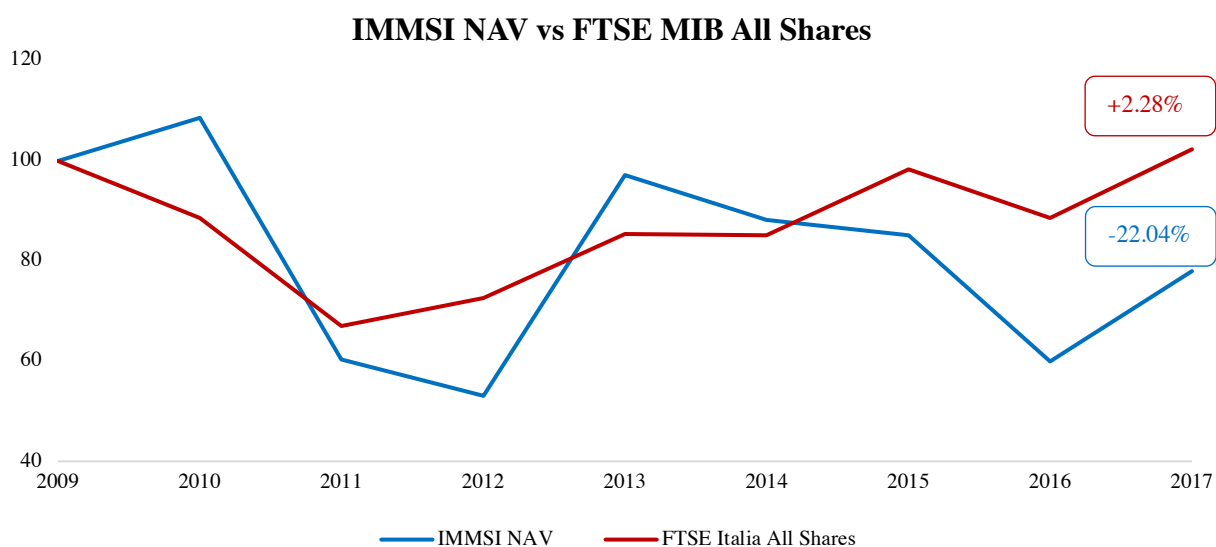
In **2013**, Immsi registered an increase in the value of its portfolio, followed by a decreasing trend until 2016. It should be noted that the NAV dynamic over these years has been almost exclusively determined by the market performance of Piaggio, the main asset in terms of value in the portfolio, constantly combined with the negative performance in the naval and real estate

sector, as well as the ongoing reduction of the value of the investments in Unicredit and Alitalia (full write-down of the investment in 2017).

In **2017** Immsi's NAV increased by about 30% compared to the previous year. This increase in value can be mainly attributed the extremely good performance in the market by Piaggio (share price +49.60% YoY). However, the improved performance of Intermarine also played a role. In fact, Intermarine returned to being profitable in 2017, after having focused from 2014 mainly on the defence sector, less exposed to difficult macroeconomic conditions compared to the ferries and yacht business.

Summing up, analysing the NAV evolution during the period 2009-2017, it can be derived that the dynamics can be almost entirely attributed to two factors: external macroeconomic events and the market performance of the underlying listed asset Piaggio, which during these years has been able to maintain and strengthened its worldwide leading position by exploiting the opportunities in the emerging Asian markets. In fact, Immsi did not particularly demonstrate its activism in managing the portfolio, through strategic value creating acquisition or divestment operations.

IMMSI performance vs. market

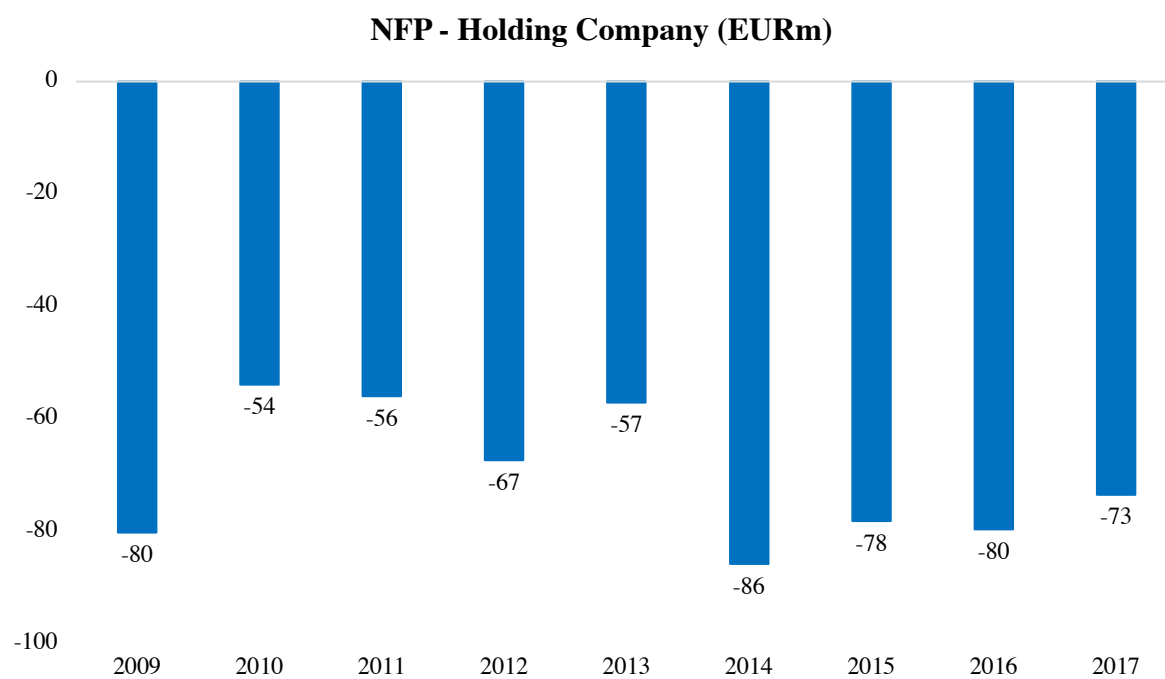


Source: Bloomberg, analysts' reports and personal re-elaboration.

If we look at Immsi's NAV evolution, during the period 2009-2017 NAV decreased by 22.04%, underperforming the FTSE Italia All-Shares Index, which increased by 2.28% in the same period. Only in the last year, thanks to Piaggio's good market performance and the restored profitability in the naval sector, Immsi's NAV registered an increase of 30%, outperforming the market by about 15 p.p.

Financial structure

In the analysis of the financial structure policy, the Net Financial Position of the Holding Company - i.e. Immsi S.p.A. - has been taken into consideration, as reported in the company annual reports.

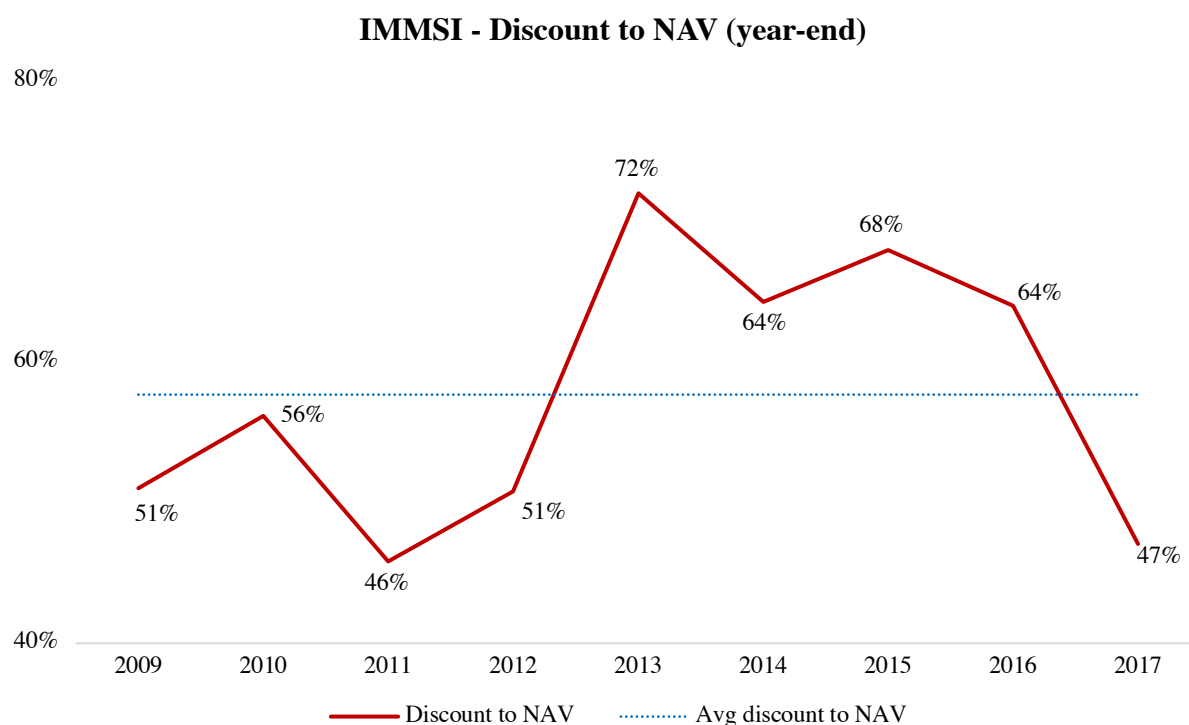


Source: annual reports. NFP calculated as Cash and cash equivalents – Gross financial debt.

During the period 2009-2017, Immsi has been characterized by a leveraged capital structure, resulting in an average loan-to-value ratio of 12%. The level of leverage in 2009 can be mainly connected to the conclusion of the acquisition of the remaining share of the undersigned investment in Alitalia. The reduction of leverage in 2010 can be mainly attributed to the sale of Piaggio shares, which has been performed again in 2013 and 2015. The adoption of a leveraged financial structure is also linked to the participation in 2013 to Alitalia's capital increase operation and to other disbursements in favour of Alitalia in 2014-2015-2016, in compliance with a stand-by equity commitment undertaken in September 2014.

Discount to NAV

After having investigated, in the previous section, the NAV evolution and the related main determinants, we continue with the analysis by considering how the market has changed its valuation about Immsi during the reference period. Thus, by comparing in each year the market capitalization to the NAV, we can study the discount to NAV dynamic and try to understand its key factors.



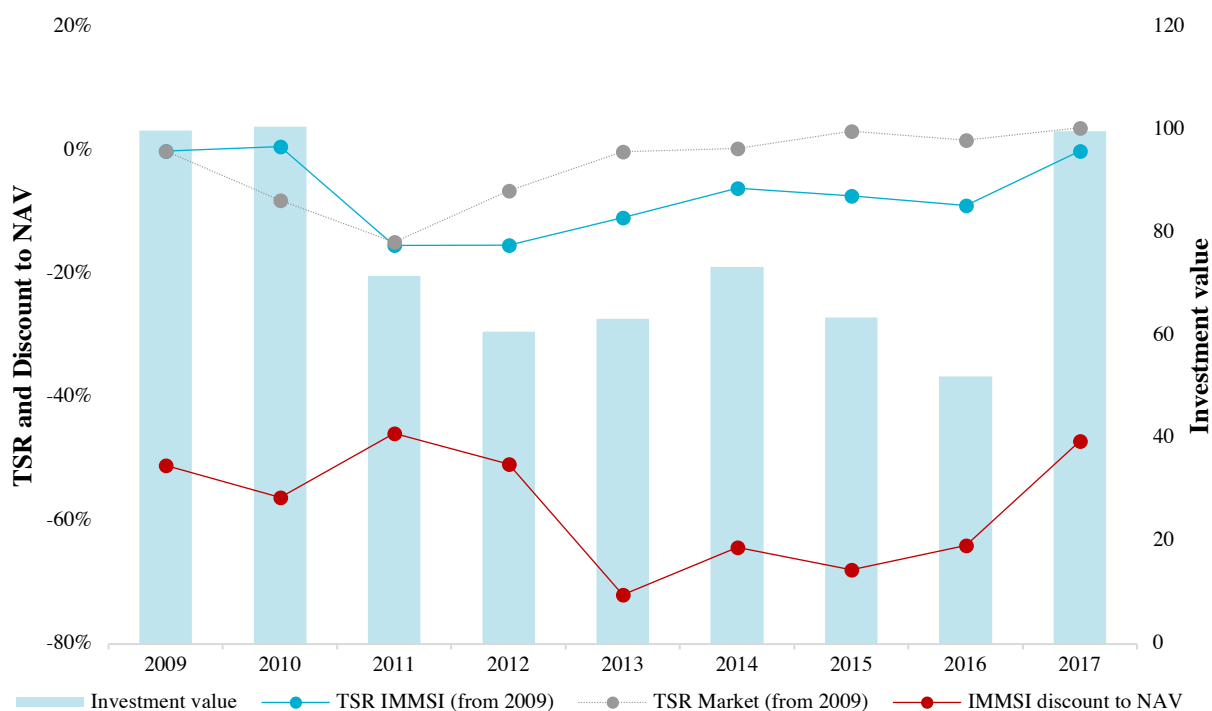
Source: personal calculation

Immsi is characterized by the persistence of a high level of discount between its Market Value and NAV. This dynamic can be attributed to the company's portfolio composition. Given the low visibility of the unlisted assets in the portfolio, the market seems to be only assigning value to and recognizing the stake in Piaggio.

In 2017 we can observe a reduction of about 26 p.p. in the discount to NAV compared to the previous year (64% in 2016 vs. 47% in 2017). This movement may be linked to the good market performance of Piaggio (share price +49.60% YoY) and to the fact that the naval sector, with the unlisted asset Intermarine, has reverted to being profitable after years of continuous losses and a restructuring process. This positive performance of the underlying assets has been valued by the market and reflected in a re-rating of Immsi's shares (market cap almost doubled YoY), which then traduced in a squeeze of the applied discount.

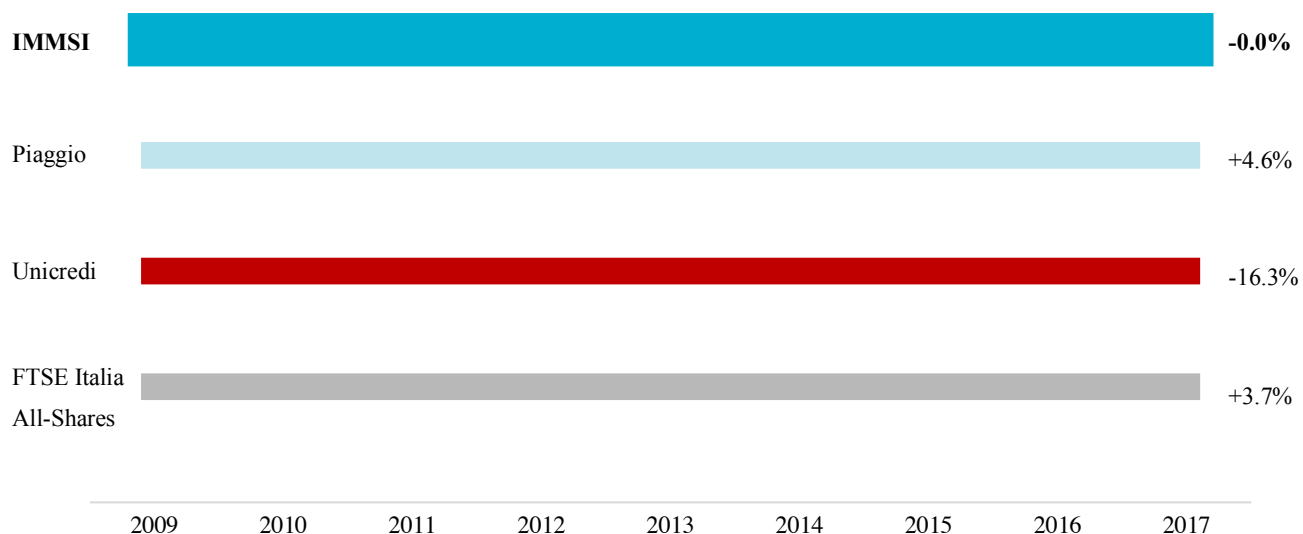
Total Shareholder Return

Total Shareholder Return can be analysed in connection with the performance of the underlying assets (listed and not listed) in the holding company's portfolio and the discount to NAV dynamic over the years.



Source: Bloomberg (TSR) and personal re-elaboration

Annualized TSR



Source: Bloomberg

Over the period 2009-2017, Immsi delivered an annualized TSR of -0.0%, compared to 3.7% returned for the FTSE Italia All-Shares Index.

Assuming an investment value of 100 in 2009, Immsi has delivered negative returns to its shareholders during the period 2009-2016, as the initial investment value decreased. It needs to be mentioned that, for the purpose of this analysis, only the listed assets have been taken into consideration, although the unlisted assets in naval and real estate business surely have exerted a strong influence on the negative return being delivered, given their suffering of cyclical challenges and their constantly being in loss during the reference period. The negative performance of the unlisted assets has been only partially compensated by the listed asset Piaggio, the most important one in terms of weight on total portfolio value, which has instead delivered an annualized TSR of 4.6% during the 2009-2017 period. In 2017, Immsi has reported an outstanding performance, almost recovering all the accumulated losses of the previous years, which could have been triggered by the naval sector good performance, turned to be profitable, along with the extremely good market performance of Piaggio.

In explaining the annualized TSR equal to -0.0% delivered in the period 2009-2017, it can be concluded that the positive contribution of roughly 1% coming from the discount to NAV dynamic observed during the same years and the positive performance of Piaggio have been offset by the negative performance of the unlisted assets.

2.6 TAMBURI INVESTMENT PARTNERS

Tamburi Investment Partners (TIP) is an independent Italian investment and merchant bank focused on medium-sized Italian companies, which undertakes investment activities as an active shareholder through minority stakes and advisory activities in corporate finance operations through the division Tamburi & Associati.

It was founded in 2000 by Giovanni Tamburi and Alessandra Gritti and the shares are listed on MTA (Mercato Telematico Azionario managed and organized by Borsa Italiana S.p.A.) since 2005. TIP is part of the FTSE Italia Mid Cap Index.

It is owned by several prominent Italian entrepreneurs and family-owned firms, representing a precious and unique network of competencies for the company's operations (*see fig. 7*).

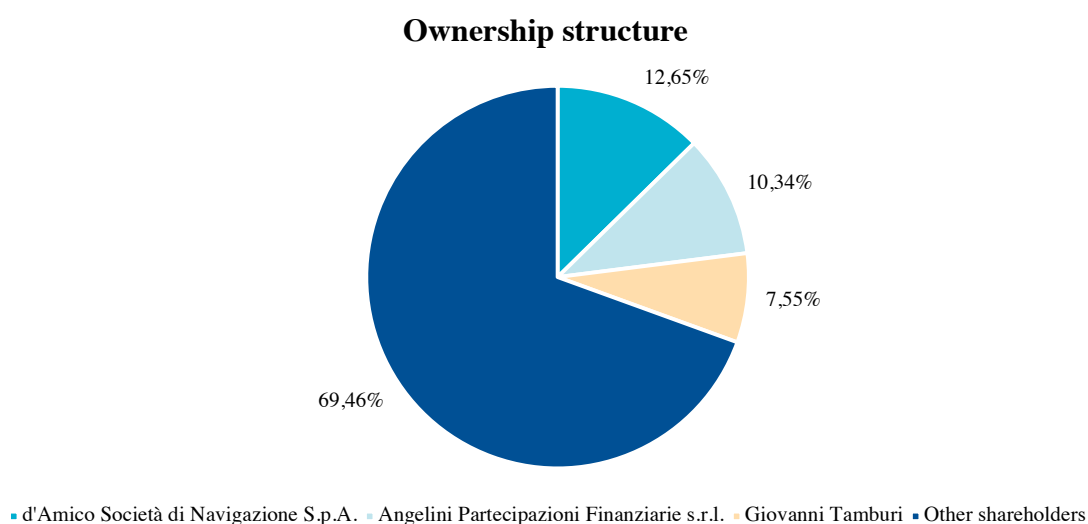


Fig. 7 – Ownership structure. Source: Company's annual report (2017)

Current asset portfolio

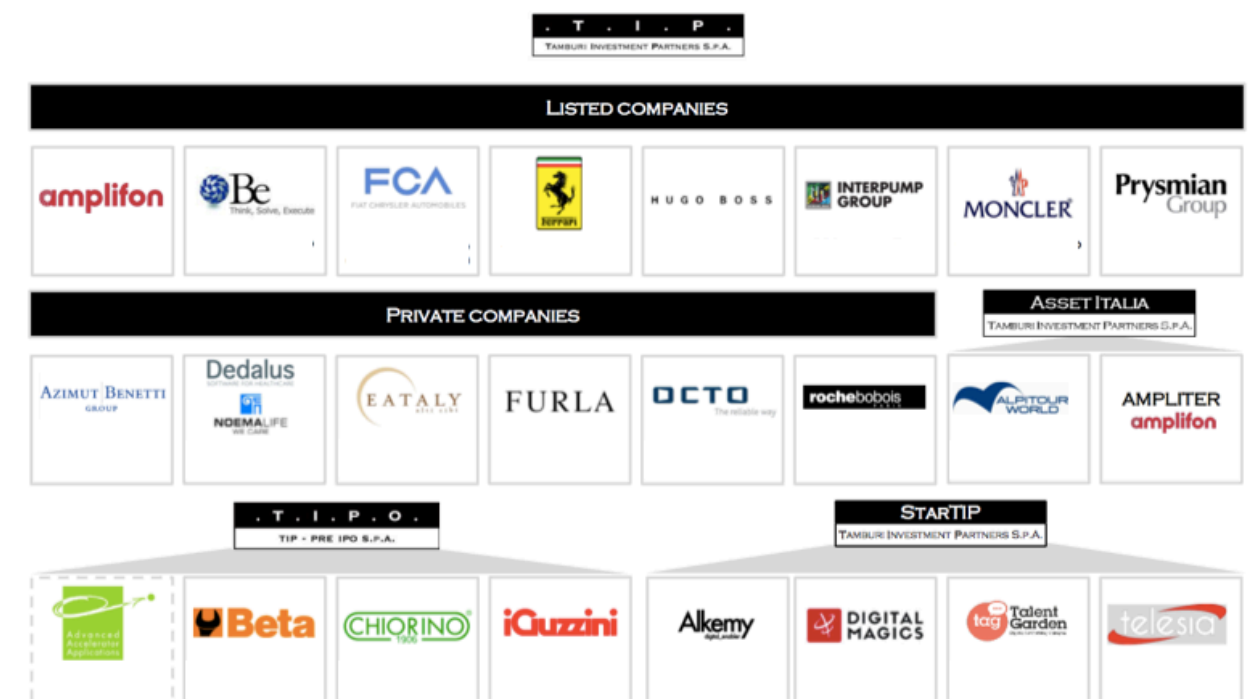
TIP is an independent investment bank, mainly investing through minority stakes in both publicly listed and unlisted medium-sized Italian companies, featuring forefront positions in their respective markets and with good growth potential. TIP acquires minority interests with the aim of helping companies in exploiting new opportunities, thus accompanying entrepreneurs and the management in the process of growth and value creation. The companies in which TIP invests are selected based on the management quality and reliability, the existence of distinctive commercial and industrial features which make a company an “excellence” and the actual possibility of playing an active shareholder role. TIP invests under two different schemes – direct investments and club deals, i.e. investments carried out together with some

other entrepreneurs/investors – leaving operating management to the entrepreneurs, with whom it sometimes makes governance agreements, and without setting a fixed time horizon and considering a priori way-out operations, as the decisions are always based on the potential of the assets and on delivering added value through its role of minority shareholder. TIP owns a diversified portfolio of assets, which is managed by adopting an extremely flexible and dynamic approach, with the company always ready to exploit value and grasp the best opportunities offered by the market.

Over time, TIP adopted a more structured approach to its investments. Now, it has four vehicles through which it carries out investments, characterized by distinct investment criteria:

- TIPO (TIP pre-IPO) is a specific vehicle which targets smaller companies (sales ranging from 30 €m to 200 €m) in the development phase, aiming to be listed;
- Asset Italia, founded in 2016, is specialized in carrying out structured club deals, with each shareholder having the faculty to choose, every time a proposal arises, whether to participate or not to each individual investment;
- StarTIP, founded in 2017, is specialized in investments in the start-up, digital and innovation fields;
- TIP, which directly focuses on other investments.

As of 31st December 2017, TIP's portfolio is composed as follows:



Source: Company's presentation (12.03.2018)

The main listed assets, in terms of value over total GAV, are the following:

- *Interpump* (23.67% stake, owned through 33.7% stake in Gruppo IPG Holding) operates in the mechanical components industry, specifically in the water jetting sector and in the hydraulic sector, in which it has a worldwide leading position;
- *Moncler* (1.77% stake) is a world leader in the luxury winter clothing segment;
- *Amplifon* (2.67% stake) is the world leader in the distribution and custom application of hearing aids.

The main unlisted assets, in terms of value over total GAV, are the following:

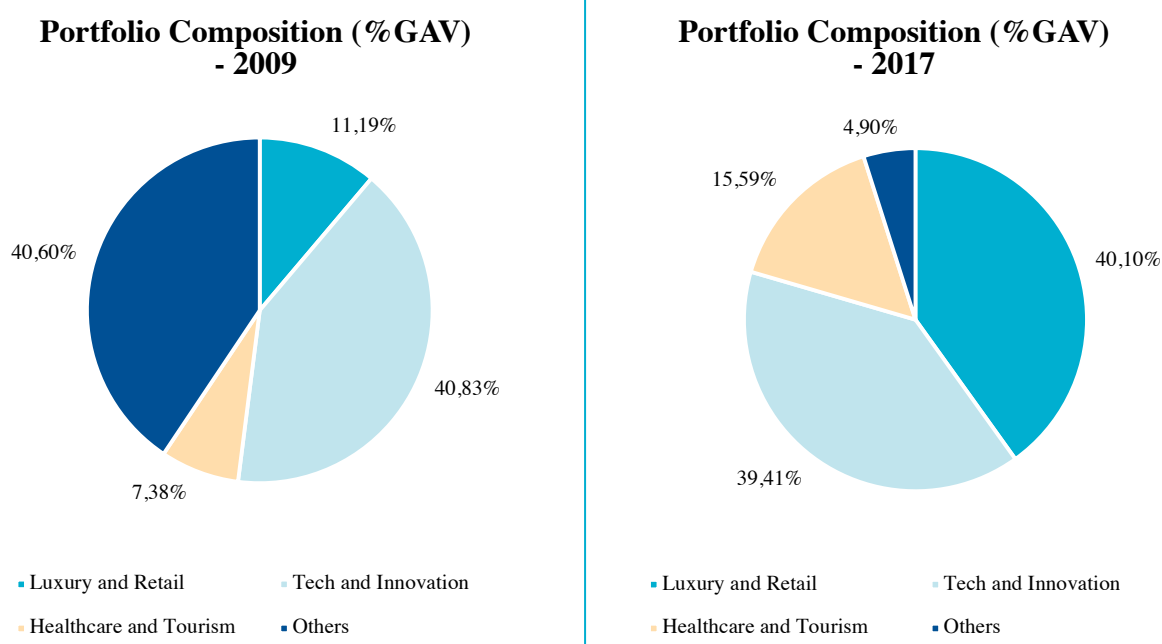
- *Azimut Benetti* (12.07% stake) is the leading Italian group in the yachting industry and one of the world's leading private luxury boating groups;
- *Alpitour* (30.9% stake, owned through Asset Italia) is a leading Italian online and offline tour operator, also active in providing all the services for tourists arriving in a country;
- *Eataly* (19.7% stake, owned through 30.20% stake in Clubitaly) is a high-end Italian food market chain, which distributes products of Italian food and wine excellence.

2.6.1 Performance analysis

NAV evolution

Since its inception in 2000, TIP distinguished from the other Italian listed investment companies for its greater flexibility and dynamic portfolio management, resulting in a very fast portfolio rotation, with an estimated weighted average holding period of 4-5 years. TIP's main objective is to create value for shareholders by buying minority stakes and helping companies to develop their business and exploit new opportunities. This acquisition strategy is accompanied by an equally important and focused divestment strategy of assets.

TIP manages a highly diversified portfolio of assets, typically concentrated in luxury/fashion, technology/innovation and healthcare sectors. Considering the period 2009-2017 and the realized acquisition/divestment operations, Gross Asset Value (GAV) has registered an evolution in the composition.

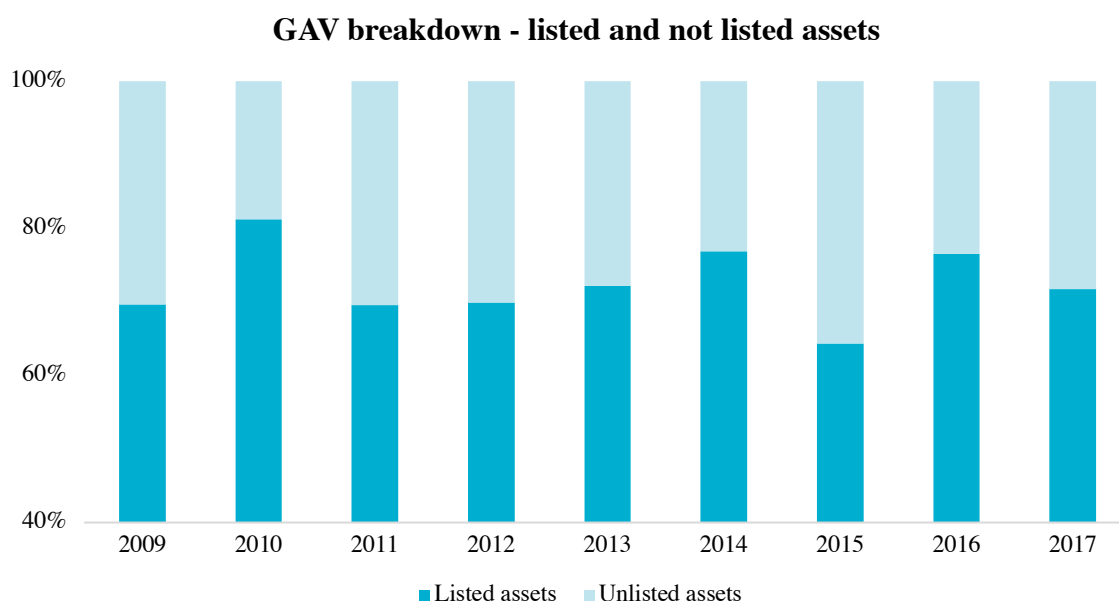


Source: Personal re-elaboration of analysts' reports data (2009 and 2017)

Making a comparison between the portfolio compositions at the beginning and at the end of the reference period, the greater exposure to the luxury/design/retail sector (11.19% of GAV in 2009 – 40.10% of GAV in 2017) appears immediately evident. This is connected with the acquisitions performed over the entire period in this sector (e.g. Moncler, Ferrari, Hugo Boss, Azimut Benetti, Roche Bobois). Also the healthcare and tourism sectors have increased their weight in terms of GAV (7.38% in 2009 – 15.59% in 2017), after Amplifon and Alpitour have become part of TIP's portfolio in 2010 and 2017 respectively. The active approach, which has

characterised the portfolio management over the analysed period, in 2017 resulted in a more balanced portfolio in terms of sectors exposure.

Another important characteristic to consider is the GAV composition in terms of proportion between listed and unlisted assets. TIP's portfolio has always been composed of a significant share of listed assets – always representing more than 60% of GAV and slightly varying over the years depending on the companies targeted for acquisition deals – thus granting a high level of liquidity to the portfolio.

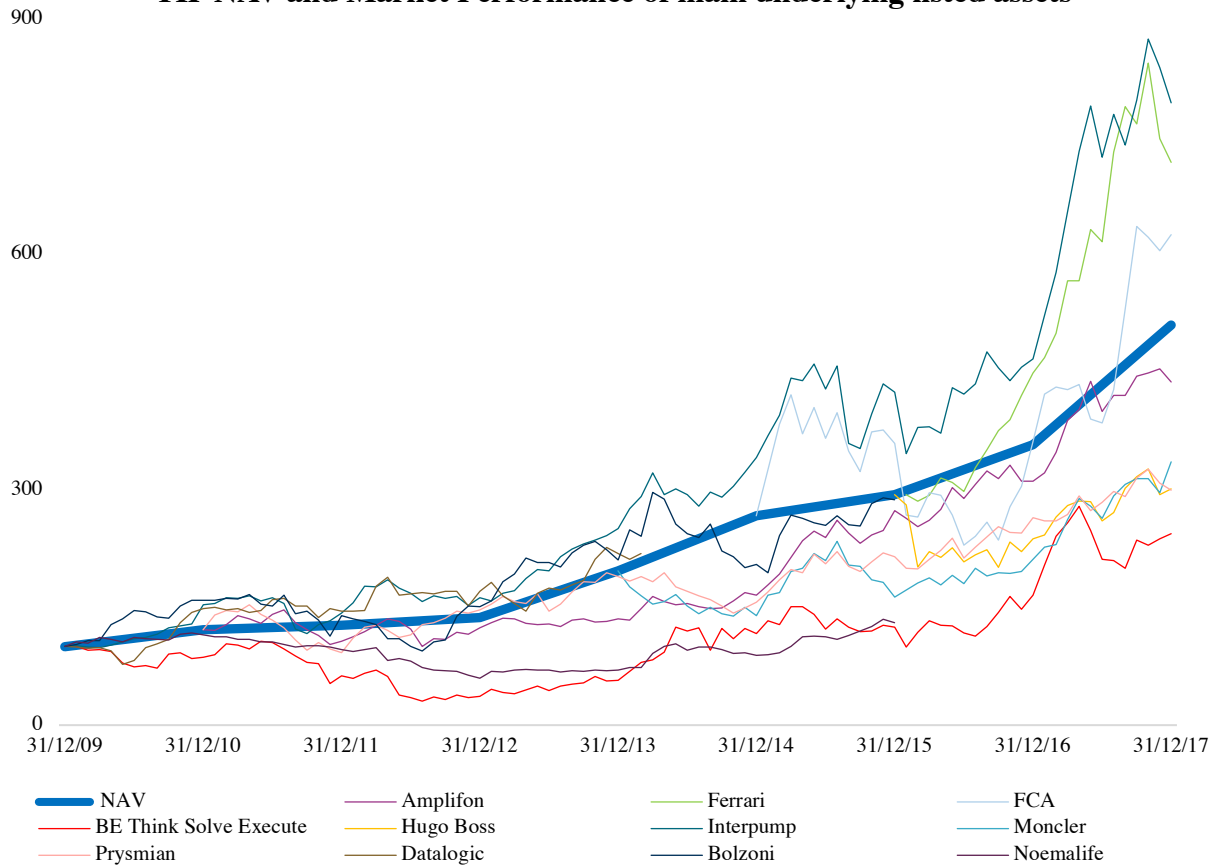


Source: Personal re-elaboration of analysts' reports data

During the period 2009-2017, TIP's NAV registered an almost fivefold increase with about +23% CAGR. This extremely successful path is due to a combination of market performance of the underlying listed assets and the numerous corporate actions undertaken to actively manage the asset portfolio.

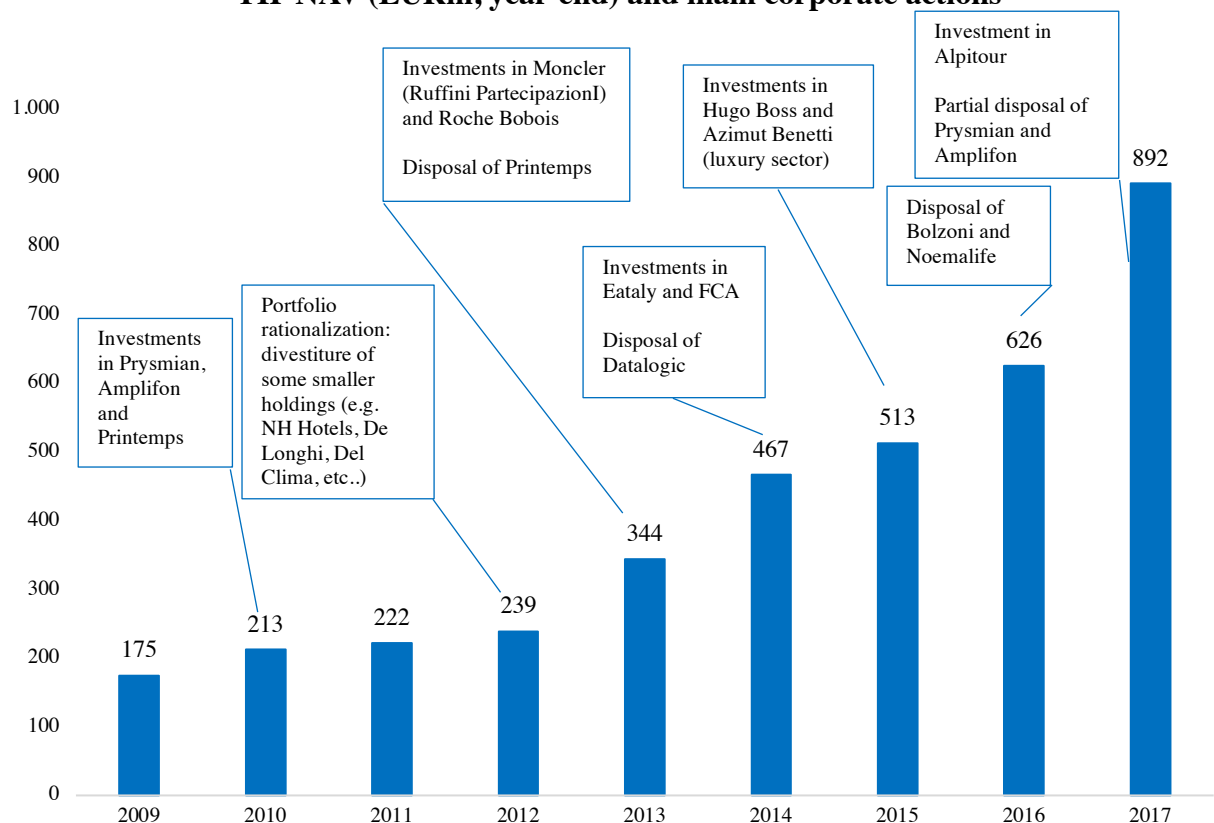
In analysing this dynamic, the presence of a potential impact deriving from the subjectivity and the different approaches used in the valuation of non-listed assets needs to be considered. In particular, in the analysts' reports used in this analysis, the non-listed companies are valued, when determinable, based on specific experts' valuations (market multiples method); when this is not possible, non-listed companies are valued based on the book value of equity, as reported in the company's annual reports, considering the stake attributable to the parent.

TIP NAV and Market Performance of main underlying listed assets



Source: Bloomberg, annual reports and personal re-elaboration. NAV taken from analysts' reports.

TIP NAV (EURm, year-end) and main corporate actions



Source: NAV taken from analysts' reports.

We start now analysing NAV evolution. During the considered period, TIP's NAV registered a continuous increase from year to year and, unlike the other analysed holding companies, did not particularly suffered the external negative macroeconomic dynamics and the financial market turmoil.

In **2010**, NAV increased by 21.6% compared to the previous year and this is linked to the significant investments performed during the year, for a total amount of over 70 €m. TIP invested in Prysmian (world leader in the production of cables for energy and telecommunications), through Clubtre vehicle, Amplifon and Borletti Group Finance, which owns a 30% stake of Printemps (second most important chain of department store in France). These operations were perfectly consistent with TIP's investment philosophy, as particularly Prysmian and Amplifon are both market leaders in their respective sectors and were investing aggressively to take new growth opportunities. Along with the introduction of these strategic assets in the portfolio, a positive contribution to the NAV increase over the year was also given by the very positive market performance of the main underlying listed assets (e.g. Interpump +54% YoY, Datalogic +49% YoY, Bolzoni +59% YoY, Noemalife +15% YoY), which reflected their robust operating progresses and very sound balance sheets.

2012 has been a year of portfolio rationalization, characterised by new investments in some core positions (including Amplifon, Interpump and Be) as well as by divestitures of some smaller holdings (De Longhi, Del Clima, Diasorin, IMA, NH Hoteles and Zignago Vetro), realizing a capital gain of roughly 3 €m. As explained in the company's 2012 annual report, TIP has decided to exit these companies, albeit excellent at both industrial and financial levels, because they did not represent particularly relevant investments and also because they were part of groups in which it was not easy to completely fulfil the function of active shareholder, thus not strategically consistent with TIP's investment philosophy. The combination of these operations, in addition to the positive market performance of the underlying listed assets (first among all Prysmian, which registered +60% share price YoY, representing 25% of GAV), positively contributed to the NAV dynamic, with an increase of 7.7% compared to the previous year.

Also **2013** has been characterized by significant investment and divestment activity, resulting in a strong value creation, being NAV increased by 43.9% compared to the previous year. In April, TIP announced the acquisition of a 20% stake in Roche Bobois, the world's leader distributor of luxury furniture, with a club deal through the vehicle TXR (51% controlled by TIP). This deal, which involved a non-listed and international group, strengthened TIP's

position in the luxury sector and in the international stage, confirming its focus on market leaders engaged in global expansion. In July, TIP announced that an agreement was reached for the disposal of Printemps entire investment, generating a cash-in of about of around 42 €m and a capital gain of approximately 33 €m, thus demonstrating TIP's ability in identifying and enhancing the value of the investments in non-listed and foreign assets. This deal also allowed to generate fresh financial resources for reinvestment opportunities, as confirmed by the subsequent acquisition, with a club deal through the vehicle Clubsette (52.5% controlled by TIP), of a 14% stake in Ruffini Partecipazioni, a holding that owned 32% of Moncler, world leader in the luxury winter clothing segment. Through all these operations realized over the year, TIP confirmed its ability to identify new investment opportunities and to build an investee portfolio well balanced between listed and not-listed, Italian and foreign assets, with an attractive exposure also to luxury/design/fashion sector. The remarkable NAV increase over the year, in addition to the mentioned corporate actions, has been positively influenced by the extremely good market performance of all the main listed underlying assets.

2014 continued to be marked by various significant deals, in terms of both investments and divestments, as well as developing new strategic initiatives. The first important deal has been the acquisition in March, with a club deal through the vehicle Clubitaly (27.5% controlled by TIP), of a 20% stake in Eataly, a high-end Italian food market chain that distributes, on a global scale, products of Italian food and wine excellence. The deal perfectly fitted TIP's investment strategy, i.e. the cream of "Made in Italy" companies managed by top business people, with a clear worldwide growth project. The purpose of the investment was to float Eataly on the stock exchange within few years in order to make it a global public company, able to represent Italian lifestyle with even greater strength and with an increasingly international profile, thanks to the financial benefits and visibility of the listing. Other important investments during the year have been the one in FCA performed in August (0.15% stake), as well as the increase in stakes in Interpump, Roche Bobois and Moncler, proving the support that TIP provides to subsidiary companies with solid growth potential. During the year, TIP also proceeded with the monetization of its historical investment in Datalogic, realizing a capital gain of over 15 €m. A new important strategic initiative that needs to be mentioned is the creation of TIPO (28.75% controlled by TIP), a vehicle for investments in top quality micro caps with growth potential and willing to be listed on the stock exchange within 3 to 5 years. During the year, TIPO acquired a stake in AAA, a pharmaceutical and diagnostic company headquartered in France, and in iGuzzini, Italian leading company in the lighting equipment and systems sector. Thanks to all these corporate actions, performed to diversify the investments with a mix of high-quality

assets, and in combination with the good market performance of the main underlying listed assets (Amplifon share price +23% YoY and Interpump share price +36% YoY), TIP has been able to create value, proven by a NAV increase of 35.8% compared to the previous year.

In **2015**, TIP continued its process of portfolio diversification with the investments in Hugo Boss (0.85% stake), a market leader in the high-end apparel market, and Azimut Benetti (11.73% stake), one of the world's leading private group in the luxury boating sector. As a result of these operations, having as target high-quality brands, TIP increased the presence of luxury/fashion assets in its portfolio. These investments have been traduced in an increase in the value of the portfolio, having NAV registered +9.9% compared to the previous year, always supported also by the strong share price performance of all the main underlying listed assets.

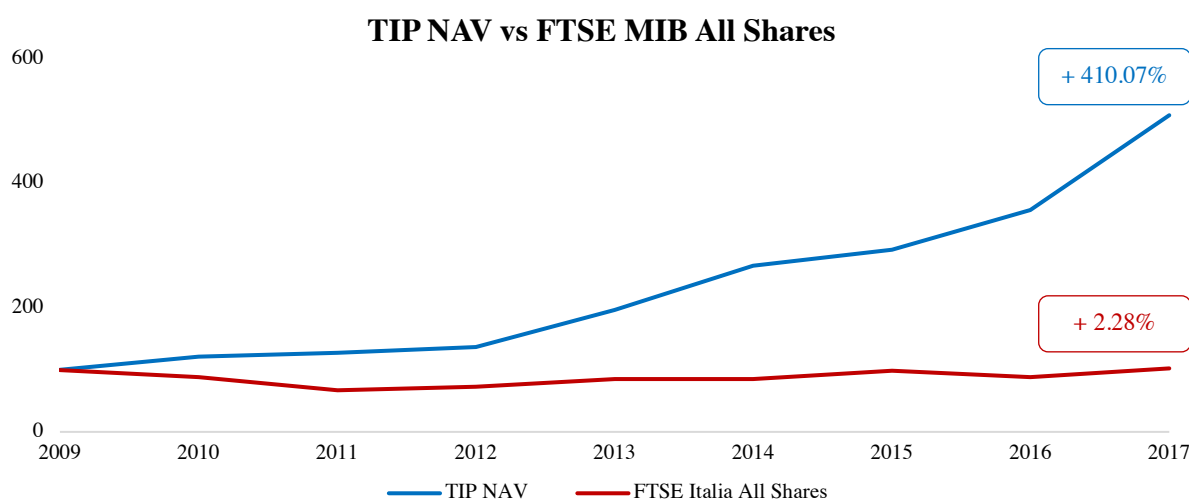
In **2016**, TIP's NAV increased by 21.9% compared to the previous year. This value creation has been sustained by the good market performance realized during the year by the listed assets in TIP's portfolio, as well as by the corporate actions undertaken during the year. The most important to be mentioned are, first of all, the disposal and monetization of the entire strategic investments in Bolzoni and Noemalife, both through OPA launched by industrial partners, realizing a total capital gain of about 10 €m. Moreover, during the year, TIP has significantly increased its position in Hugo Boss, reaching a 1.28% stake. Another important strategic initiative that needs to be mentioned is the creation of Asset Italia (20% stake owned by TIP), a vehicle specialized in carrying out structured club deals, giving each shareholder the chance to choose, every time a proposal arises, whether to subscribe or not for each individual investment. The initiative allows TIP to capitalize on its valuable network of relations with Italy's most important entrepreneurial families and its track record of successful transactions over the last few years.

In **2017**, TIP realized a partial disposal (about a third) of its interests in Prysmian and Amplifon, while continuing to hold significant stakes compared to the investments originally made, thus confirming the positive evaluation of the potential of these companies. Along with these operations, TIP also increased its investment in Hugo Boss and Interpump and in June acquired a 10% indirect stake (through Asset Italia vehicle) in Alpitour, the leading Italian travel operator. Another important strategic initiative is the creation of StarTIP (100% owned by TIP), a vehicle specialized in investments in the start-up, digital and innovation fields. The rationale behind this operation is to make use of the unique network comprising an entrepreneurial shareholder base and a portfolio of excellent companies in order to provide cross-fertilization and accelerate the development processes of start-ups and innovative companies in the early

stage, which is one of the most promising segment in the venture capital industry but still uncovered in Italy by venture capital firms. During the year, the underlying listed assets registered an outstanding performance in the market, e.g. looking at the three major assets over which almost 50% of total portfolio is concentrated: Interpump (21% of GAV) share price +70% YoY, Moncler (18% of GAV) share price +59% YoY and Amplifon (9% of GAV) share price +41% YoY. These market dynamics in the listed assets, combined with the corporate actions undertaken over the year, allowed TIP to substantially boost the value of its portfolio, having NAV registered a 42.5% increase compared to the previous year.

Summing up, during the considered period, TIP's NAV registered a significant increase (+23% CAGR). After having analysed the NAV evolution over the years, the successful path can be considered to be mainly triggered by the corporate strategy that has been implemented. The fast portfolio rotation with a constant evaluation of acquisition/disposal opportunities, the unique and valuable network of entrepreneurial families with significant industrial know how to scout for investments and the portfolio broad diversification – in terms of sector, geography and combination of listed and unlisted assets – in high-quality assets have directly been traduced in a significant value creation. This extremely dynamic approach in portfolio management has also been combined with the remarkably positive market performance of the main underlying listed assets, corresponding to an “excellence” recognized by the market, which further increased TIP's NAV.

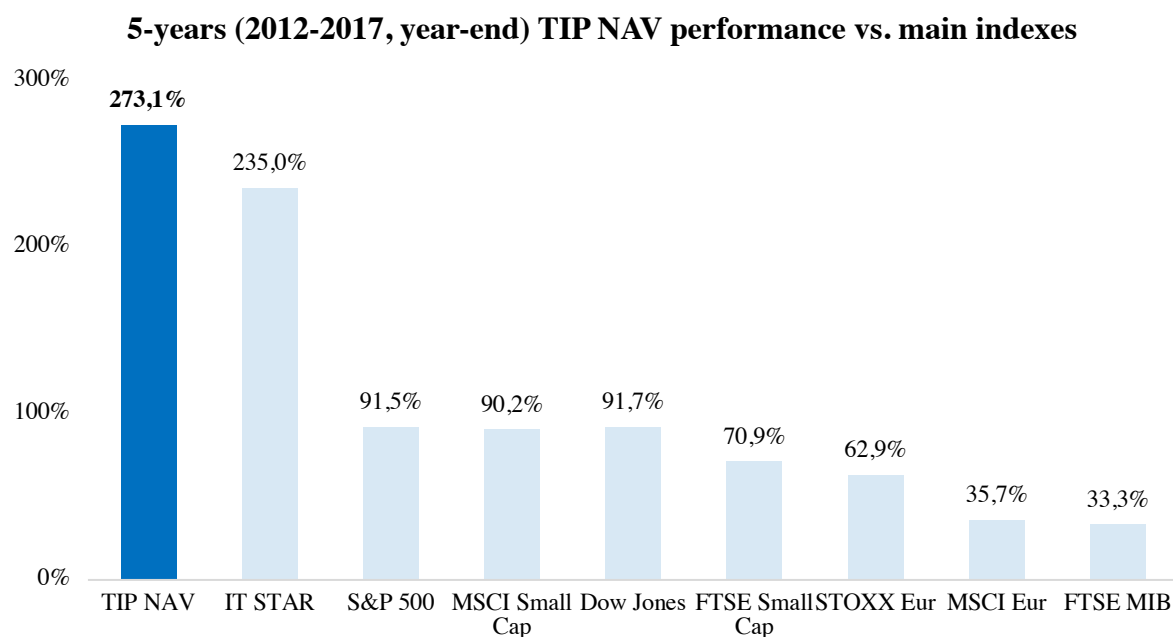
TIP performance vs. market



Source: Bloomberg, analysts' reports and personal re-elaboration.

If we look at the TIP's NAV evolution, during the period 2009-2017, NAV increased by 410.07%, exceptionally outperforming the FTSE Italia All-Shares Index, which increased by just 2.28% in the same period.

The outstanding TIP's performance over the years in terms of value creation, given by the implemented corporate strategy, i.e. the application of an extremely dynamic portfolio management approach, allowed TIP to outperform also all the main market indexes. At this purpose, we refer to the 5-year performance, as regularly shown in Company's annual reports.

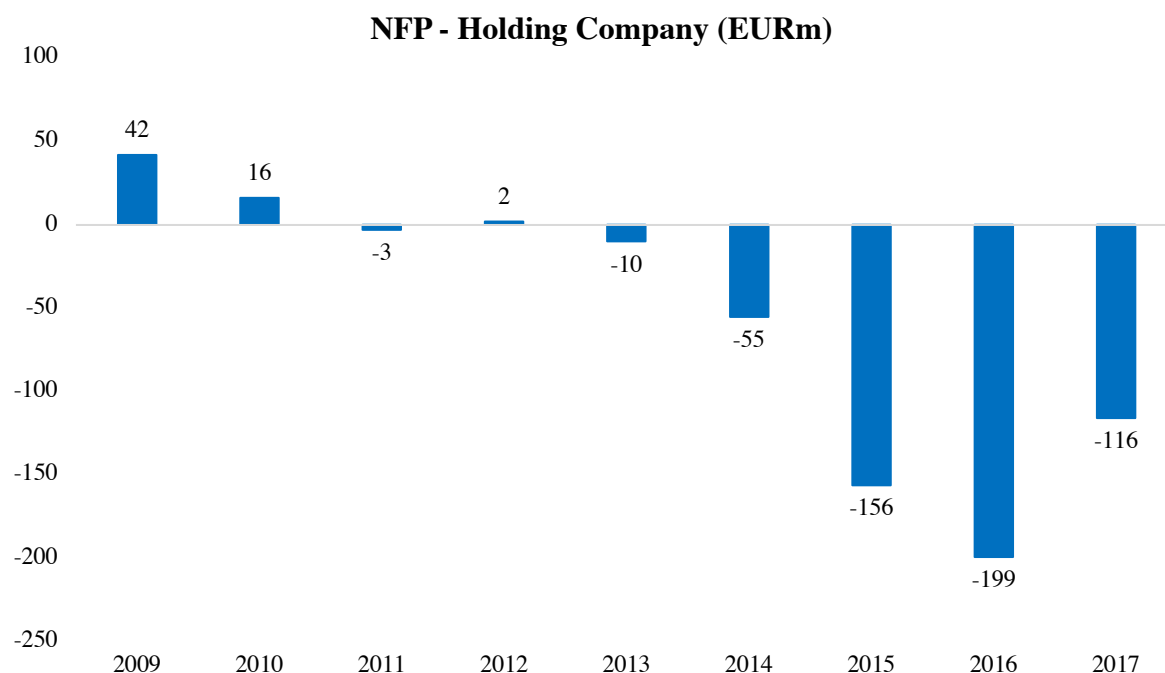


Source: Indexes performance data from TIP's company presentation (06.02.2018), referred to the period 26.01.2013-26.01.2018.

Financial structure

The corporate actions undertaken during the years, in the context of an active portfolio management, are directly related to the financial strategy and structure of the company.

In the analysis of the financial structure policy, the Net Financial Position of the Holding company - i.e. Tamburi Investment Partners S.p.A. - has been taken into consideration, as reported in the company annual reports.



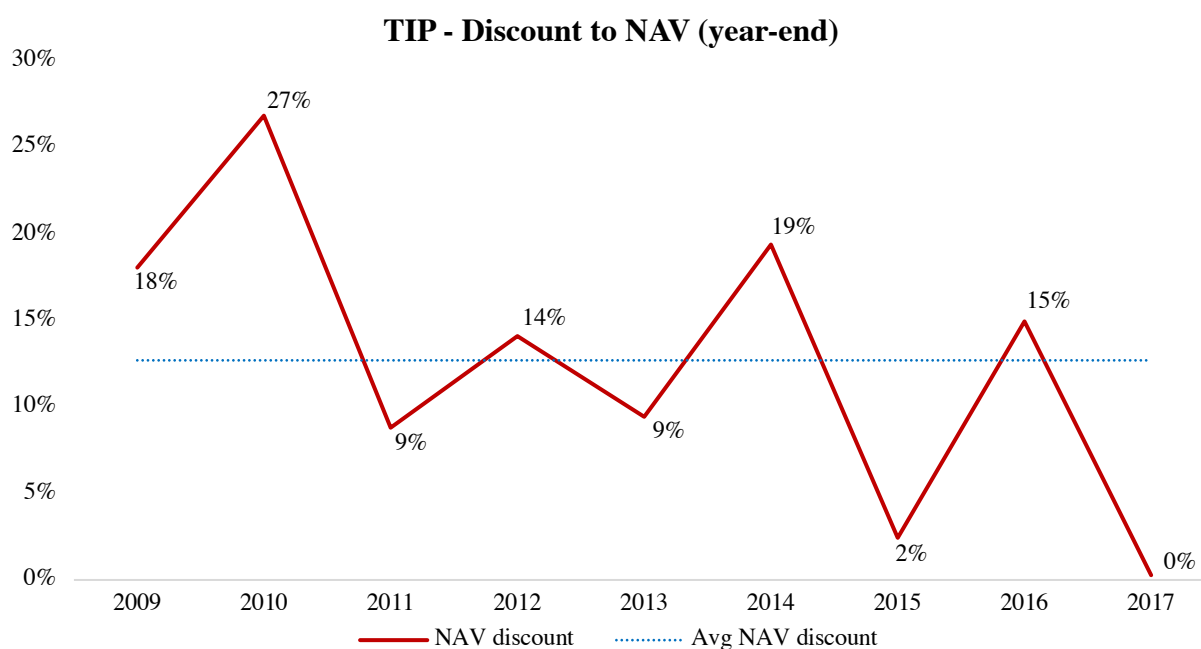
Source: annual reports. NFP calculated as Cash and cash equivalents – Gross financial debt.

TIP historically followed quite a prudent and cautious financial strategy, although its financial leverage increased and its financial structure became more aggressive between 2013 and 2016, with an LTV ratio reaching 25% in 2016, in order to pursue new investment opportunities. In 2017, we can observe a significant decline in the level of debt (LTV ratio of 12%, halved compared to the previous year), thanks to the partial disposals of Prysmian and Amplifon and, above all, to the cash inflow of 51 €m coming from the warrants conversion exercised in June.⁹

⁹ Warrants are a derivative that give the right, but not the obligation, to buy (*call warrants*) or sell (*put warrants*) a security at a defined strike price, within an established deadline, at a specific ratio. In 2015, TIP issued 36.9 €m 2015-2020 warrants (distributed to shareholders for free) which can be converted at a 1:1 ratio in June of each year at an increasing strike price (June 2017 – warrants converted at 4.15€ per share).

Discount to NAV

After having investigated, in the previous section, the NAV evolution and the related main determinants, we continue with the analysis by considering how the market has changed its valuation about TIP during the reference period. Thus, by comparing in each year the market capitalization to the NAV, we can study the discount to NAV dynamic and try to understand its key factors.



Source: personal calculation

TIP is characterized by the persistence of a very low discount between its Market Value and NAV and this is linked to the characteristics of TIP's portfolio and its investment strategy, which together even allowed the zeroing of the discount to NAV applied by the market in 2017.

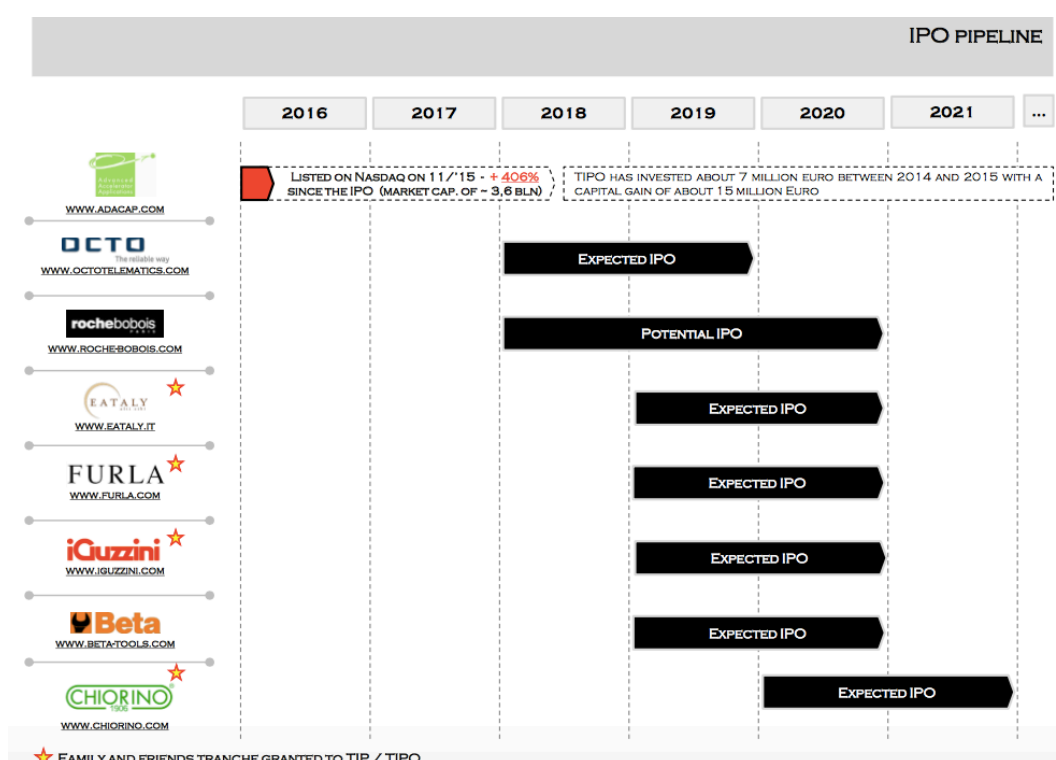
First of all, TIP's portfolio, through minority stakes investments, is characterized by broad and balanced diversification in selected sectors: in 2017, 40% of value is in the luxury/retail industry (Moncler, Hugo Boss, Eataly and Azimut Benetti being the main assets), 39% of value is in technology sector (Interpump and Prysmian being the main assets) and 16% of value is in the healthcare/tourism sectors (Amplifon and Alpitour being the main assets).

Secondly, and even more important than diversification, the extremely dynamic approach to investments: during the 2009-2017 period, the portfolio has been characterized by fast asset rotation, with a total of 72 M&A transactions completed and an estimated weighted average holding period of 4-5 years.

Thirdly, the portfolio is characterized by the focus on high-quality assets, featuring forefront positions in their respective markets. Their "excellence", growth prospects and very sound

balance sheets are also recognized by the market, having the main TIP's underlying listed assets reported strong stock performances during the analysed period. This has then been directly reflected also in a progressive re-rating of TIP. Among the few exceptions, it is possible to mention BE – Think Solve Execute – for which the market in 2010 did not understand its intrinsic value and did not reflect the turnaround effort made by the management in the previous 12 months, which allowed the company to return to bottom-line profitability.

Moreover, an important feature of TIP's portfolio is the prevailing weight of listed companies (around 70% of GAV in 2017) or, in any case, of unlisted companies pursuing IPOs, as shown in the below figure. This allows TIP to have a highly liquid portfolio of assets, which is a feature strongly appreciated by the market.



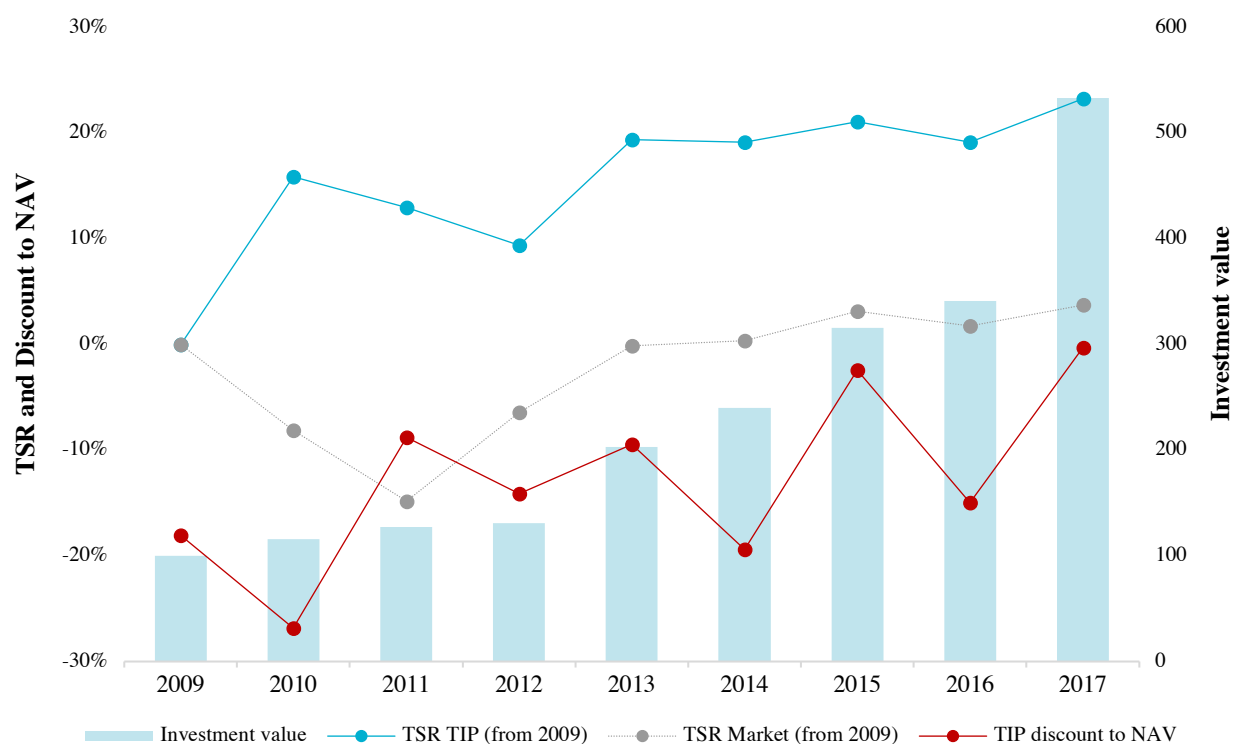
Source: Company's presentation (12.03.2018)

Lastly, the extraordinary managerial performance in value creation, arising from management's role in helping companies in exploiting new opportunities and in accompanying entrepreneurs and the management in the process of growth through a real active shareholder approach, needs to be mentioned as distinctive TIP's feature.

Putting all these things together, over the years, the market has appreciated TIP's investment strategy and has recognized its value creation ability. This has been reflected in an extremely high TIP's stock re-rating (share price +348.6% considering the period 2009-2017) and thus in an almost constant low level of the discount to NAV applied, even reaching the zero level in 2017, i.e. a situation in which the portfolio of assets trade in line with its fair value.

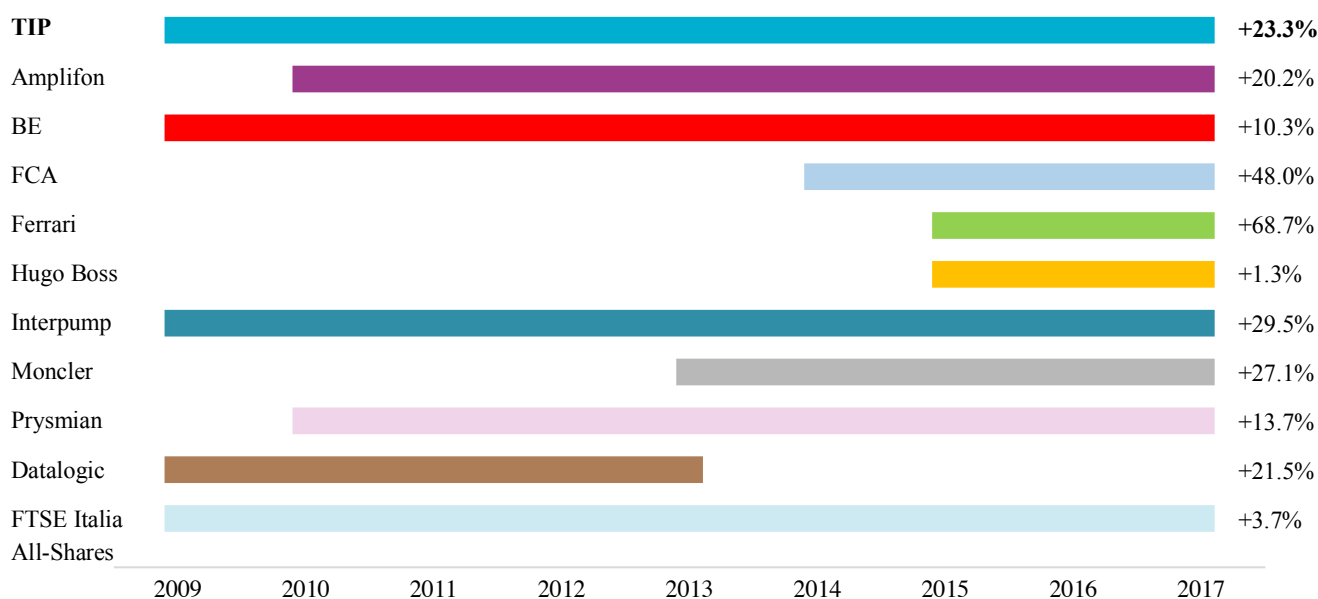
Total Shareholder Return

Total Shareholder Return can be analysed in connection with the performance of the underlying assets (listed and not listed) in the holding company's portfolio and the discount to NAV dynamic over the years.



Source: Bloomberg (TSR) and personal re-elaboration

Annualized TSR



Source: Bloomberg

Over the period 2009-2017, TIP delivered an annualized TSR of 23.3%, compared to 3.7% returned for the FTSE Italia All-Shares Index.

Assuming an investment value of 100 in 2009, TIP has delivered exceptionally positive returns to its shareholders over the years, as the initial investment value continuously increased and more than fivefold during the period 2009-2017. This considerably good performance by TIP is associated with the investment strategy adopted.

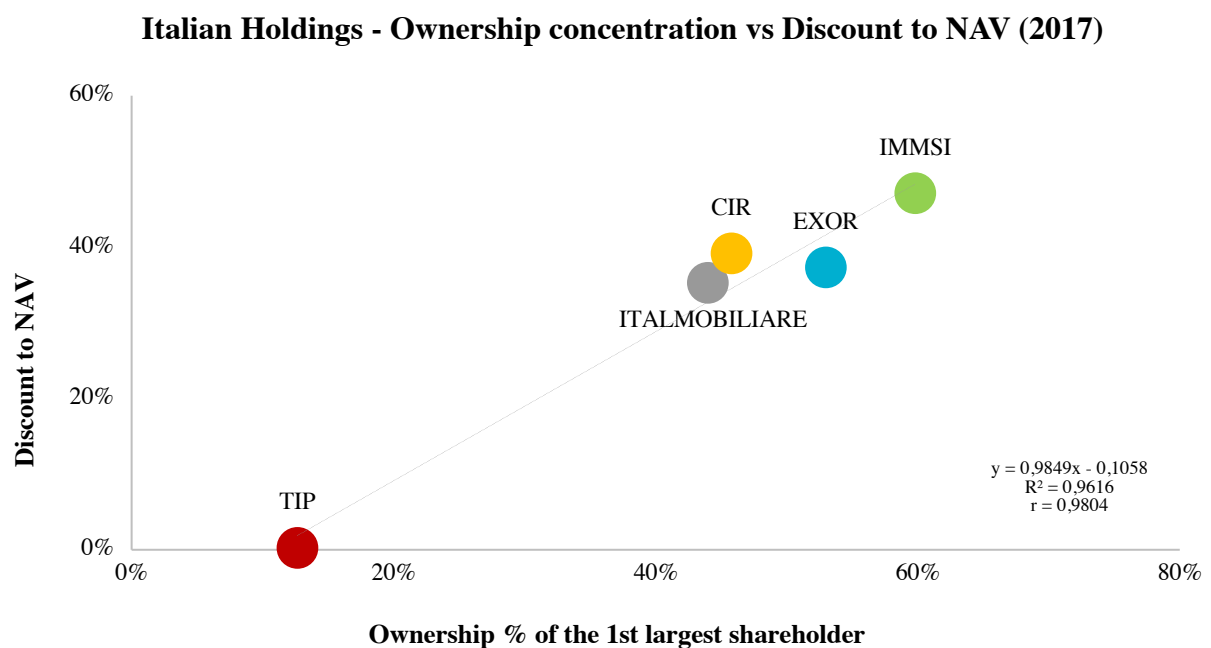
First of all, the unique network of contacts and the expertise of the management team in providing support to the investee companies for exploiting growth opportunities have been fundamental elements for boosting the performance of its underlying assets, carefully selected by TIP for their excellence in their respective markets. For the purpose of this analysis, referring to the period during which the assets are part of the portfolio, only the listed assets have been taken into consideration; however, the unlisted assets also have exerted a considerably positive influence on the return being delivered, given their growing path and sound operating performance. With particular reference to the listed assets having more weight on total TIP's investment portfolio value in 2017, we can immediately recognize the fact that TIP's delivered TSR in the period 2009-2017 has been strongly determined by their performance: Interpump delivered a TSR equal to 29.5% in the period 2009-2017, Moncler delivered a TSR equal to 27.1% in the period 2013-2017 and Amplifon delivered a TSR equal to 20.2% in the period 2010-2017.

Moreover, the investment strategy characterized by highly dynamic portfolio management approach has been responsible of a substantial value creation over the years, which has also been recognized by the market. During the analysed period, we can indeed observe a remarkable squeeze of the discount to NAV, which from a level of 18% in 2009 reached the zero level in 2017. This dynamic in the discount to NAV applied by the market has exerted a positive incidence of about 2.5% on the TSR equal to 23.3% delivered by TIP in the period 2009-2017.

Conclusions

The analysis carried out in the present work with regard to the investment holding companies listed on the Italian stock market has allowed to observe the discount to NAV phenomenon. The analysis has been conducted for the period 2009-2017 and this time frame allowed to notice changes in the discount to NAV level applied by the market from one year to another. Moreover, despite the observed persistence of this phenomenon in the analysed sample, the level of the discount at which stocks are traded is different in the different holding companies taken into consideration. It can be thus deduced that the discount to NAV level is strictly linked to several company-specific factors.

The first element observed to be strongly connected to the discount to NAV level in the analysed sample is the *ownership concentration*, measured considering the ownership % of the first largest shareholder.



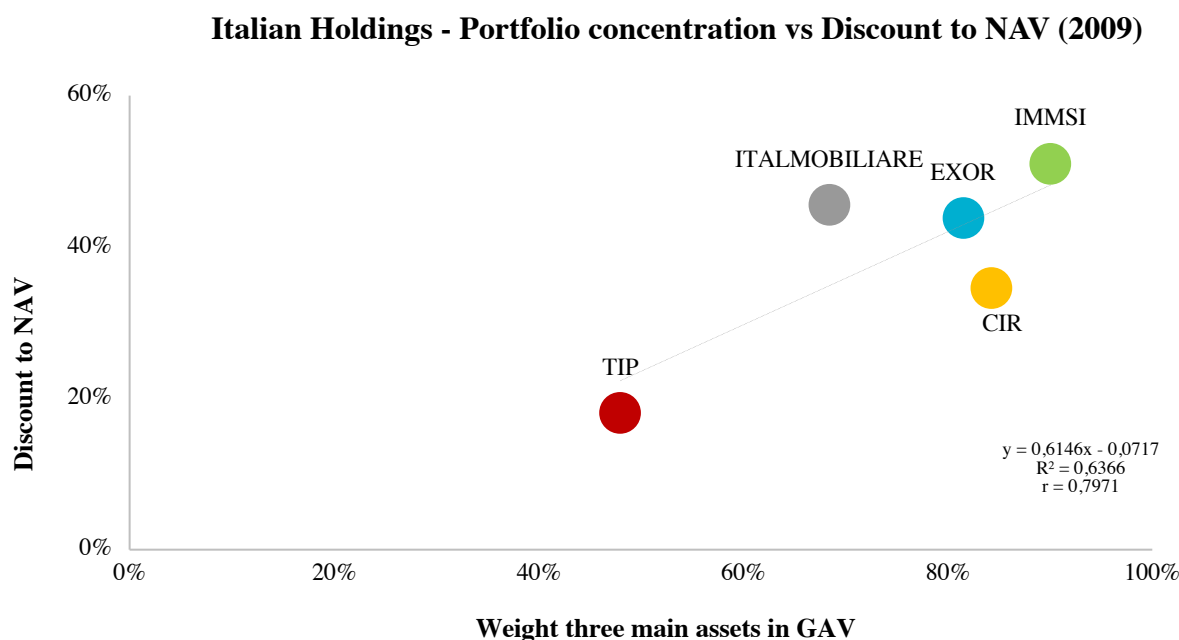
Source: personal re-elaboration

Among the holding companies being studied, TIP substantially differs from the others in terms of ownership structure. This is due to the fact that Exor, Italmobiliare, CIR and IMMSI are holding companies which have been established to diversify the economic interest and keep control in the hands of the controlling family at the top of the chain through a cascading mechanism; TIP, instead, is owned by a network of several Italian entrepreneurs and family-owned firms and, similarly to closed-end funds, makes minority stakes investments, as it does not aim to keep control over the investee companies.

Moreover, except for CIR, the other family holding companies do not declare, according to Italian group Regulation, to be under the direction and coordination activity of the vehicles controlled by the different families. However, considering the relevant presence of controlling family members in the Boards, with both executive and non-executive roles, this declared separation between control and direction seems to be more apparent than real.

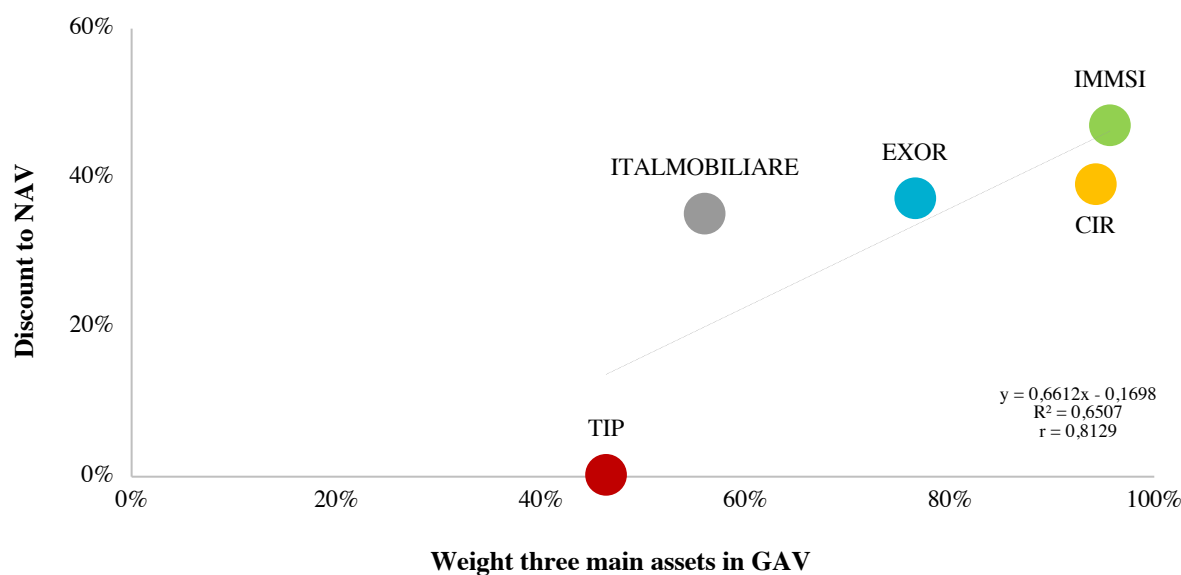
The ownership concentration is connected to the agency problem, to the risk of expropriation of the controlling shareholder at the expenses of the minorities as well as to a perceived low transparency in the market. Consequently, as it can be deducted from this analysis, there is a strong positive correlation between the ownership concentration and the level of the discount to NAV applied by the market. In fact, considering the ownership structure and the discount to NAV levels in 2017: TIP is the holding company with the lowest ownership concentration (12.65% stake of the first largest shareholder) and discount (zero level), while IMMSI is the one with the highest ownership concentration (59.83% stake in the hand of the Colaninno family, through the wholly owned company Omniaholding S.p.A. and its subsidiary Omniainvest S.p.A.) and discount to NAV (47%).

From the analysis carried out in this dissertation, another element that turns out to be closely connected to the discount to NAV is the *portfolio concentration*, measured considering the weight of the three main assets in GAV.



Source: personal re-elaboration.

Italian Holdings - Portfolio concentration vs Discount to NAV (2017)



Source: personal re-elaboration.

Typically holding companies, conglomerates and multi-divisional firms are characterized by the so-called conglomerate discount, i.e. the discount to NAV applied by the market considering the implementation risk, the additional complexity and the questioned effective management connected to the diversification process.

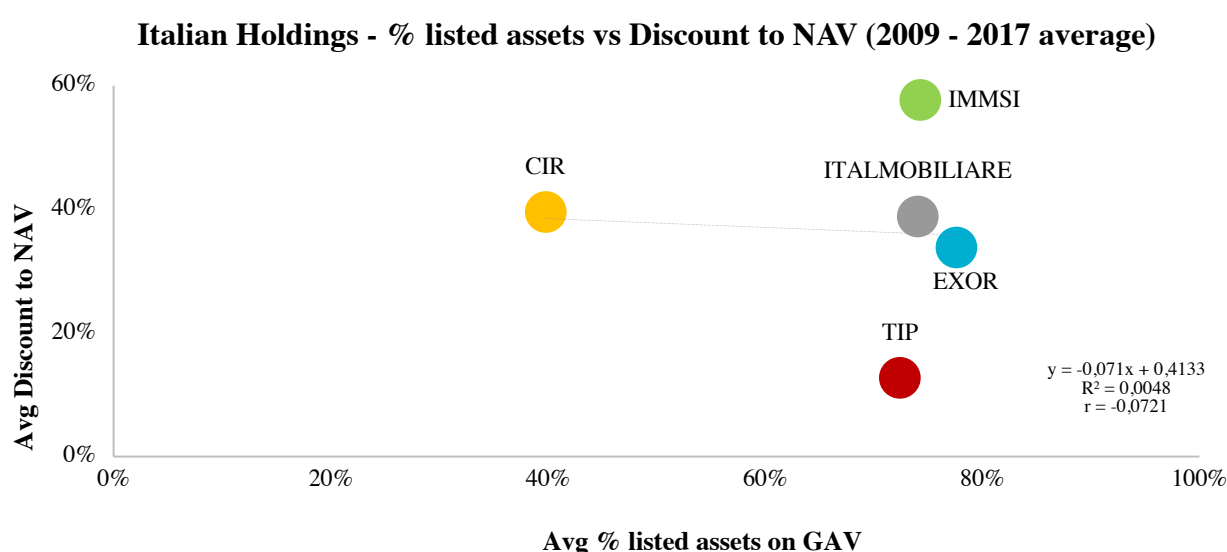
In reality, from the analysis conducted in this work, it emerges that diversification allows to reduce the risk exposure of the asset portfolio, as the dependence on a single sector of activity or a single country is lowered, and this is recognized by the market with a reduction in the applied discount to NAV. It is certainly true that over-diversification may lead to difficulties in understanding and monitoring the investments, and therefore to a reduction in the value of the portfolio, but it is important not to consider diversification per se, given that all actually depends on management and asset quality.

During the analysed period, Exor, Italmobiliare and TIP have increased the diversification of their portfolio, both in terms of sectors and geography, along with a rationalization of minor non-core assets when they did not fit the company's strategy anymore. This portfolio reshuffle process performed during 2009-2017 period ended in a reduction of portfolio concentration, which has been rewarded by the market with a decrease in the applied discount to NAV. In CIR and IMMSI, instead, comparing the portfolios in 2009 and 2017, an increased portfolio concentration can be observed as well as the highest levels of discount to NAV.

A particularly interest case is TIP. It is the most diversified holding (the three most important assets in its portfolio represent about 48% of GAV in 2017, compared to a range of 70-90% for the other holding companies), but in a balanced manner, since the investments are realized in

selected high-growth potential sectors and in high-quality assets, featuring forefront positions in their respective markets. So, we can consider TIP a notable example of the fact that management ability in selecting high-quality assets compensates for high diversification and this is also recognized by the market, which applies a low discount to NAV (TIP's discount even reached the zero level in 2017).

Maintaining the focus on the holding companies' portfolios composition, an aspect which turned out *not* to be strongly related to the level of the discount to NAV is the *portfolio liquidity*, measured considering the average percentage of listed assets on GAV during the 2009-2017 period.



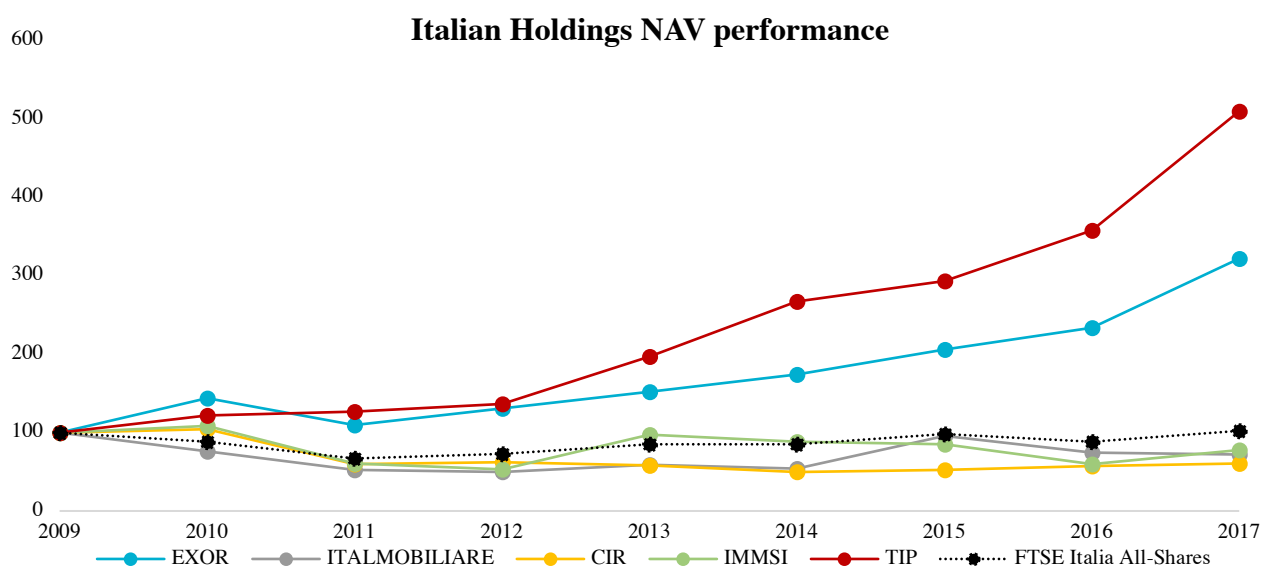
Source: personal re-elaboration.

The portfolio liquidity, guaranteed by the presence of a high percentage of listed assets, is a feature usually appreciated by the market but it is also important to balance the portfolio with investments in unlisted assets. In fact, having unlisted assets in the portfolio allows shareholders to access and having exposure to these private businesses investing in the holding companies' shares while a portfolio entirely composed of listed assets would be easy to replicate through direct investment and the investor will find it useful to own the holding only when the discount is sufficiently appealing. In selecting the unlisted assets to invest on, holding companies should always pay attention to the quality and visibility of these assets, as these are the two main figures to guarantee a recognition of their value in the market.

Considering the average percentage of listed assets on GAV (for this purpose it is always important to bear in mind that the percentage may be affected by the different valuation methods used for valuing unlisted assets) and the average discount to NAV in the 2009-2017 period, in this analysis the portfolio liquidity does not seem to be related to the discount phenomenon. In

reality, it can be inferred that it is not the portfolio liquidity per se, but a balanced portfolio with a portion of high-quality and high-visibility unlisted assets that is inversely correlated to the level of the discount to NAV applied by the market. In this regard, in the considered sample, TIP is an interesting case. Its portfolio is characterized by a prevailing weight of listed assets, with an average (about 70%) which is almost in line with that of the other peers in the sample (excluding CIR), but it has also a portion of “excellent” unlisted assets in their respective sectors and with high visibility in the market, also given by their expected IPOs. This portfolio composition seems to be strongly appreciated by the market, which rewards TIP by applying the lowest level of average discount to NAV (13%) compared to its peers.

In the light of this analysis, the *investment style* can be considered a strongly determining factor for value creation and for the recognition of such value by the market, manifested through the application of a lower discount to NAV.



Source: personal re-elaboration.

During the analysed period, TIP is the holding which demonstrated the highest level of activism in managing its portfolio, performing continuous and well-focused acquisition and divestment operations. This dynamism is visible looking at TIP’s portfolio rotation, characterized by an estimated weighted average holding period for the investments of 4-5 years. The adoption of this active approach allowed TIP to extraordinarily increase the value of its portfolio during the period (NAV +410%) and this has been also rewarded by the market with a strong re-rating of TIP’s stocks (market cap +520% over the same period) and, consequently, with very low levels of applied discount to NAV, which even reached the zero level in 2017.

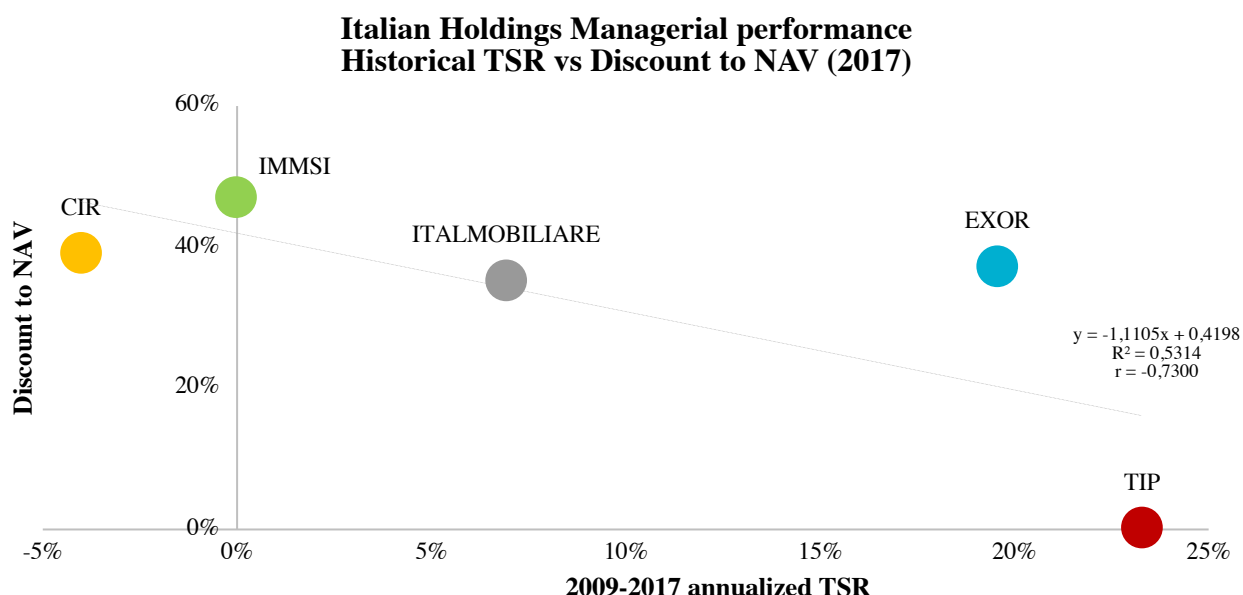
Exor also applied a quite active approach in managing its portfolio, especially in the period 2013-2016 with disposals of historical assets, the acquisition of PartnerRE in the insurance

sector and the spin-off of Ferrari. Exor benefitted from the application of this dynamic investment style, registering a considerable increase in the value of its portfolio (NAV +222%) and a strong re-rating of its stocks (market cap +259% over the same period) and, consequently, reporting the lowest average level of the discount to NAV applied by the market (about 34% in the 2009-2017 period) compared to the discount applied to the other family holding companies in the sample.

IMMSI, on the contrary, is the holding company in the sample which operated applying the most passive investment style, with no strategic investment or disposal operations to reshuffle and optimize its portfolio. This passivity resulted in a reduction in the value of its portfolio (NAV -22%) and in the application of very high levels of discount to NAV by the market (average discount of 58% in the 2009-2017 period).

From the analysis presented in this work it is therefore deductible that a holding company with a passive investment style deserves a higher discount to NAV compared to one dynamically managing its portfolio as the former will be an appealing investment only when the discount to NAV is sufficient to be worth taking the risk of being passive.

The last element which turned out to be significantly related to the level of the discount to NAV is the *managerial performance*, measured considering the delivered historical TSR as a good proxy, although no guarantee, of future performance.



Source: personal re-elaboration.

When investing in a holding company, the capabilities of the management team to deliver outperformance are elements significantly important to consider. In this regard, in the light of the analysis conducted here, TIP is an impressive case. Over the entire 2009-2017 period, the

management team realized an extraordinary performance in scouting new value-creating investments and in helping investee companies in exploiting new opportunities, thus accompanying entrepreneurs and the management in the process of growth. This remarkable management expertise allowed TIP to deliver an annualized TSR equal to 23.3% for the 2009-2017 period and the market expressed its confidence in the management team's capability of continuing to create value in the future by eliminating the applied discount to NAV in 2017.

On the contrary, CIR and IMMSI delivered a negative annualized TSR over the 2009-2017 period (-4.0% and -0.0% respectively). The market considered this poor performance as a signal of potential non-value creation also for the future and therefore penalized these two holding companies applying in 2017 the highest levels of discount to NAV registered in the sample (39% and 47% respectively).

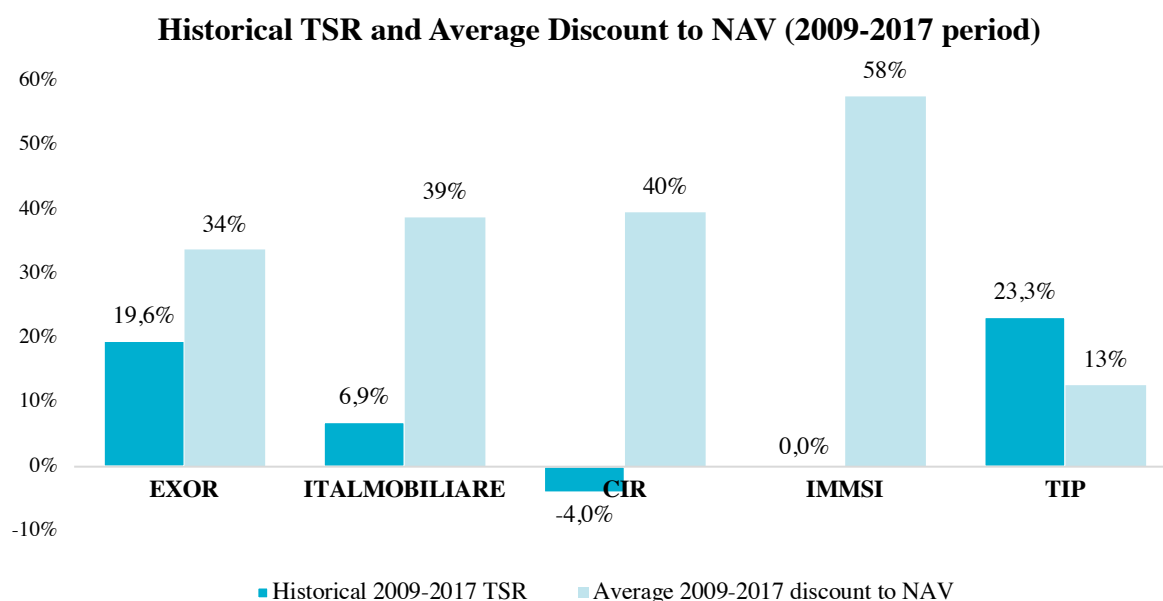
Summing up, the analysis conducted in this work allowed to observe that the discount to NAV is not a phenomenon that indiscriminately regards all the investment holding companies, as it is strictly connected to several company's specific factors. In particular, from this study, emerges a positive correlation of the discount to NAV level with ownership concentration and portfolio concentration and an inverse correlation of the discount to NAV level with active investment style and positive past managerial performance.

In the light of the discount to NAV phenomenon, holding companies represent an interesting investment opportunity. In fact, given the discount to NAV at which holdings' stocks are traded in the market, investors have the unique chance to exploit this evaluative imperfection of the market and access a portfolio of assets at a price which is lower than its fair value, therefore having a portion of the portfolio basically for free. When considering a possible investment, investors take into consideration the holding's delivered TSR, as it is the measure of the value created over time by the company for its shareholders. In order to maximize the benefit arising from this evaluative imperfection of the market, an investor should favour companies that trade at large discount and have high TSR.

In this regard, considering the sample of holding companies analysed within this work, the most interesting case is represented by Exor, which allowed investors to realize a high return (annualized TSR equal to 19.6% for the 2009-2017 period) by exploiting a high discount to NAV (average discount level equal to 34% over the same period).

However, Italmobiliare and TIP can also be mentioned as valuable cases. In particular, Italmobiliare allowed investors to benefit from a higher average discount to NAV level

compared to Exor (39% in the 2009-2017 period) but delivered a modest return (annualized TSR equal to 6.9% for the 2009-2017 period). TIP represents instead a very special case of holding company in the considered sample. Given TIP's proven value creation ability shown over time thanks to the corporate strategy adopted for managing its portfolio, it allowed investors to realize a considerably high return (annualized TSR equal to 23.3% for the 2009-2017 period) while exploiting a modest discount to NAV (average discount level equal to 13% over the same period, even reaching the zero level in 2017) because of the actual recognition of its value from the market.



Source: personal re-elaboration

Finally, for the sake of completeness, it is necessary to mention that there is a risk that the results of the analysis conducted in this work could have been closely idiosyncratic of particular cases. It could therefore be appropriate to conduct an econometric verification on a larger sample, also including European and worldwide holding companies, and to consider a wider time frame in order to guarantee the generalizability of the obtained results, notwithstanding that they could be valid only for the listed holding companies within the Italian context, given their distinctive features, such as for example the high level of ownership concentration.

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